MANAGING FINANCIAL COMMUNICATION:
TOWARDS A CONCEPTUAL MODEL

by

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31 October 2003
DECLARATION

I declare that the Master’s dissertation, which I hereby submit for the degree MCom Communication Management at the University of Pretoria, is my own work and has not previously been submitted by me for a degree at another university.

Norlé Schoonraad

Signature: ______________________
Date:  ______________________
ACKNOWLEDGEMENTS

Life is a journey, not a destination.

Enrolling for, and completing a degree, is the same as embarking on a journey. This dissertation is merely a product of a learning experience, academically and personally, like none before.

Thank you …

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SYNOPSIS

The research problem this study seeks to address is that confusion exists regarding the nature, management and organisation of financial communication. Six objectives guide the research efforts.

Theoretical perspectives surrounding investor relations, public relations and accounting are used to describe the current approach to financial communication (Objective 1). Two main shortcomings of the current approach are identified (Objective 2):

- a lack of integration in the management and organisation of financial communication; and
- a narrow focus on communication with the financial community alone.

This leads to Objective 3 (theoretical justification for an inclusive approach to financial communication). Perspectives from the corporate governance, corporate social responsibility, stakeholder and public relations as relationship management literature are used to prove that organisations need to engage in financial communication with all relevant stakeholders, not only “financial” stakeholders.

In order to achieve Objective 4, the theoretical perspectives mentioned above are used to develop a conceptual model for an inclusive and integrated approach to financial communication. The model provides a point of departure for future research.

The empirical component of the study supplements the theoretical component. Quantitative, exploratory survey research is done to establish whether a number of South African companies listed on the Johannesburg Stock Exchange follow an inclusive and integrated approach to financial communication (Objective 5).
The main conclusions are:

- that there are indications of an inclusive approach to financial communication, although respondents varied in their opinions; and
- that there are indications of an integrated approach to financial communication, although the majority of respondents indicated that a single department takes responsibility for financial communication.

Similarities and differences between the results of this study and those of studies conducted previously in the USA, United Kingdom and Europe, are also identified (Objective 6).

Finally, the limitations of both the theoretical and empirical components are used to formulate recommendations for future research. It is recommended that future efforts concentrate on the contributions that disciplines such as marketing, law, economics and financial management can make to financial communication. The research strategy (qualitative or quantitative) also needs to be carefully considered.
SINOPSIS

Die navorsingsprobleem wat hierdie studie aanspreek is dat verwarring bestaan oor die aard, bestuur en organisasie van finansiële kommunikasie. Ses doelwitte rig die navorsingspogings.

Teoretiese perspektiewe rondom aandeelhouer-betrekkings, openbare betrekkinge and rekeningkunde word gebruik om die huidige benadering tot finansiële kommunikasie te beskryf (Doelwit 1). Twee belangrike tekortkominge van die huidige benadering word geïdentifiseer (Doelwit 2):

- ’n gebrek aan integrasie in die bestuur en organisasie van finansiële kommunikasie; en
- ’n beperkte fokus op kommunikasie slegs met die finansiële gemeenskap.

Bogenoemde lei to Doelwit 3 (teoretiese regverdiging vir ’n inklusiewe benadering tot finansiële kommunikasie). Perspektiewe vanuit die literatuur oor korporatiewe regering (corporate governance), korporatiewe sosiale verantwoordelikheid, belangegroepe en openbare betrekkinge (met die klem op verhoudingsbestuur) word gebruik om te bewys dat organisasies in finansiële kommunikasie met alle relevante belangegroepe betrokke moet raak, nie net met “finansiële” belangegroepe nie.

Om Doelwit 4 te bereik, word bogenoemde teoretiese perspektiewe gebruik om ’n konseptuele model vir ’n inklusiewe en geïntegreerde benadering tot finansiële kommunikasie te ontwikkel. Die model kan dien as ’n vertrekpunt vir toekomstige navorsing.

Die empiriese komponent van die studie vul die teoretiese komponent aan. Kwantitatiewe, verkennende opname-navorsing word gedoen om vas te stel of ’n aantal maatskappye wat op die Johannesburgse Aandelebeurs genoteer is, ’n inklusiewe en geïntegreerde benadering tot finansiële kommunikasie volg (Doelwit 5).
Die belangrikste gevoltrekkings is:

- dat daar aanduidings van ’n inklusiewe benadering tot finansiële kommunikasie is, alhoewel respondente verskillende opinies huldig; en
- dat daar aanduidings van ’n geïntegreerde benadering tot finansiële kommunikasie is, alhoewel die meeste respondent e aandui dat ’n enkele departement verantwoordelikheid neem vir finansiële kommunikasie.

Ooreenkomste en verskille tussen die resultate van hierdie studie en dié van studies wat voorheen in die VSA, Verenigde Koninkryk en Europa gedoen is, word ook geïdentifiseer (Doelwit 6).

Laastens word die beperkinge van beide die teoretiële en empiriese komponente gebruik om aanbevelings vir toekomstige navorsing te formuleer. Dit word aanbeveel dat toekomstige navorsingsprojekte konsentreer op die bydraes wat ander dissiplines soos bemarking, die regte, ekonomie en finansiële bestuur kan lewer tot finansiële kommunikasie. Die navorsingstrategie (kwalitatief of kwantitatief) behoort ook versigtig oorweeg te word.
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CHAPTER 1
Orientation and general background

*No problem can be solved from the same consciousness that created it. We must see the world anew.* - Einstein

1.1 Introduction

Financial + Communication = ?

Financial public relations? Investor relations? Accounting communication?

The answer to this equation is not as simple as “1+1=2”. Maybe it is because there is no correct answer... or maybe there is more than one correct answer. Over the years, various disciplines and subdisciplines have attempted to solve the “equation”: terms such as “financial public relations”, “investor relations” and “accounting communication” are well known. The existence of all these terms, as well as numerous definitions for each, have led to a great deal of confusion regarding the exact nature of financial communication.

It is for this reason that the term “financial communication” is preferred in this dissertation. It cannot be directly connected to any of the disciplines that have laid claim to it - public relations, accounting, the specialist field of investor relations or marketing. The term does, however, suggest an inherent interdisciplinary nature.

Of all the disciplines mentioned above, accounting is the oldest. According to Belkaoui and Jones (1996:1), the first form of record keeping dates back to approximately 3000BC. The double-entry bookkeeping system is attributed to Luca Pacioli, who published a book in 1494, explaining the system. The idea of financial disclosure -
reporting financial results to owners (investors) and the public - can be traced back to the mid-nineteenth century (Puxty, 1990:350).

During the 20th century, the phenomenon of publicly traded shares in companies has given rise to the development of a subdiscipline of public relations, known as financial public relations. According to Marcus and Wallace (1997:311), public relations practitioners have taken responsibility for the dissemination of financial information until the mid-1970s. However, because many public relations practitioners do not have a sound financial background and understanding of the financial dynamics of an organisation, confidence in them as reliable and credible sources of information has waned.

Three trends have resulted from this disillusionment with financial public relations. Firstly, the accounting (financial) function has assumed responsibility for financial communication. A second, more recent trend is the emergence of investor relations, a separate and specialised discipline (Marcus & Wallace, 1997:2). What is interesting, is that the term “investor relations”, not “financial public relations”, is used in some public relations text books (Baskin, Aronoff & Lattimore, 1997; Cutlip, Center & Broom, 2000; Seitel, 2001). Lastly, there is increasing evidence of a marketing approach to investor relations (Dilenschneider, 2003:33; Jameson, 1996:185). This last approach to financial communication will be briefly discussed in Chapter 2, but is not the main focus of this study.

It is evident from the above, that financial communication has been characterised by “turf wars”, mainly between public relations and accounting, and investor relations to a lesser extent. However, financial communication entails more than the debate surrounding functional/disciplinary responsibility. According to Wilson (1980:10), there are four main aspects of investor relations (read financial communication) that warrant research:
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.

It is important to note, though, that the logical point of departure for research about financial communication is the management and organisation thereof. Decisions regarding the dissemination of information to various audiences, using various communication channels, have to be made within a well-organised structure. In fact, the management and organisation of financial communication have been the topic of various studies conducted previously in the USA, UK and Europe (McGrath, 1974; Marston, 1996; Marston & Straker 2001; Petersen & Martin, 1996). The results of all these studies indicate that in most cases, the accounting (financial) function takes responsibility for financial communication.

However, in South Africa, research about the management and organisation of financial communication has been limited. In 1997, preliminary research brought to light the differences in opinion about the responsibility for the management of financial communication, as well as the academic background needed by the incumbent assuming this responsibility. Questionnaires were sent to communication practitioners, while personal interviews were conducted with chartered accountants. Both groups of respondents claimed responsibility for financial communication. However, it was found that the communication practitioners were more inclined to support an integrated or cross-functional approach to financial communication, than accountants were (Schoonraad, 1998). Although the project was limited in terms of scope and depth, it provided the foundation for this study - an investigation into the current approach to financial communication, in the South African context.
1.2 Problem statement
It is evident from the previous section that there are numerous and diverse perspectives regarding the nature of financial communication, its “disciplinary home” and an ideal arrangement in terms of management and organisation. Therefore, the problem that this study addresses is:

Confusion exists regarding the nature, management and organisation of financial communication.

1.3 Research objectives
In order to address the research problem in an organised and systematic manner, the following research objectives have been formulated:

1. To describe the current approach to financial communication, from a theoretical perspective.
2. To identify the shortcomings of the current approach to financial communication, from a theoretical perspective.
3. To provide a theoretical justification for an inclusive (stakeholder) approach to financial communication.
4. To develop a conceptual model, based on an inclusive and integrated approach to financial communication.
5. To use empirical research to establish whether a number of South African companies listed on the Johannesburg Stock Exchange (JSE):
   - follow an inclusive (stakeholder) approach to financial communication;
   - follow an integrated approach (in terms of management and organisation) to financial communication.
6. To identify similarities and/or differences between the results of this study and results of three similar studies conducted previously in the USA, United Kingdom and Europe.
The first four objectives guide the theoretical component of the study, while the fifth and six objectives guide the empirical component. It must be noted, however, that the sixth objective requires that the results of previous studies be reported, before similarities and/or differences can be identified. These results are reported in the theoretical component that deals with investor relations.

1.4 Conceptual framework
There are two main disciplines that have contributed to the current understanding of financial communication: public relations and accounting. In addition, investor relations has developed as a specialised discipline on its own, although it can be said that it has its roots in public relations as well as accounting. A number of public relations text books use the term “investor relations”, while empirical evidence (McGrath, 1974; Marston, 1996; Marston & Straker 2001; Petersen & Martin, 1996) suggest that, in most cases, the accounting function currently assumes final responsibility for investor relations.

The first two objectives of this study are aimed at describing this current understanding of financial communication and identifying its shortcomings. This description will be based on public relations (specifically financial public relations/investor relations), investor relations (as specialist field) and accounting theory. It will be noted that the current approach to financial communication is characterised by 1) a narrow focus on the financial community (shareholders, analysts, banking institutions, the financial media et cetera) and 2) a lack of integration.

This leads to the third and fourth objectives of this study. Theories related to strategic management and public relations will be used to justify an inclusive (stakeholder) approach to financial communication. These include corporate governance, corporate social responsibility, stakeholder theory and relationship management (from a public relations perspective). These theories, in addition to the ones mentioned in the previous paragraph, will then be used to develop a conceptual model for an inclusive
and integrated approach to financial communication. The empirical component of the study (the fifth objective) is aimed at establishing whether there are indications of an inclusive and integrated approach to financial communication in the South African context.

The purpose of academic research is either to develop new theory, or to change or expand existing theory. In this study, theories from various disciplines are used to expand existing theory on financial communication. According to Neuman (2000:42), theory consists of various components or building blocks, known as concepts. A concept is a general idea or notion, a vague impression (Neuman, 2000:193). However, a vague or general idea does not provide a clear framework for research. Therefore, constructs are used to turn these vague ideas into systematically organised ideas.

In the problem statement of this study, reference is made to the nature, management and organisation of financial communication. The terms “management” and “organisation” imply a certain approach to, or way of dealing with, financial communication. In addition, the “nature” of financial communication will influence the approach followed. Thus, “approach to financial communication” is the concept underlying this study. Two constructs are used to make this concept more concrete:

- an inclusive (stakeholder) approach to financial communication; and
- an integrated approach (in terms of management and organisation) to financial communication.

The word “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 relevant stakeholders should be considered when developing a company’s overall strategy. In this study, an inclusive approach to financial
communication is operationalised as “communication with all relevant stakeholders that need financial information, in order to make decisions regarding the allocation of their scarce resources”.

Various authors note the lack of integration in investor relations efforts (Ferris & Newman, 1991; Johnson, 1990; Neilson, 1990; Petersen & Martin; 1994,1996). Others emphasise the importance of co-ordination and co-operation between functions such as public relations/corporate communication and investor relations (Ferris & Newman, 1991; Johnson, 1990; McMullen, 1990; Smith, 1989). Therefore, an integrated approach to financial communication is operationalised as “co-operation and co-ordination between functions/departments and their respective managers, in the management and organisation of financial communication”. The term “management” refers to reporting relationships/structures, while the term “organisation” refers to the position of financial communication in the organisational hierarchy. Figure 1.1 represents the conceptual framework of this study in graphical format.

Figure 1.1 Conceptual framework underlying this study
1.5 Definition of terms

For the purposes of this study, “financial communication” is defined in the following way:

The establishment and maintenance of mutually beneficial relationships between a company and its relevant stakeholders, by exchanging information that is needed to facilitate optimal decisions regarding the allocation of scarce resources.

The first part of this definition is derived 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 is derived from the accounting literature. For example, Wolk, Tearny and Dodd (2001:3) define financial accounting by referring to “… accounting information that is used by investors, creditors and other outside parties for analyzing management performance and decision-making purposes”. Belkaoui and Jones (1996:29), Glautier and Underdown (1995:18) and Lehman (1992:21) also refer to the role of accounting information in the allocation of resources.

Note that the term “stakeholders” is used in the above definition of financial communication. Freeman (1984:25) defines stakeholders as any group or individual who can affect or is affected by the achievement of the firm’s objectives. It is also important to note that the phrase “exchanging information” is used to emphasise the two-way nature of financial communication. Information is not merely provided or disclosed by one party to another. Following an open systems perspective, information is shared between the organisation and its environment.

Two terms are used to refer to financial communication, namely “financial public relations” and “investor relations”. Buchner (1994:231) defines financial public 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”.

There are mixed opinions regarding the disciplinary home of investor relations. Cutlip et al. (1994:19) define investor relations as “the specialized part of corporate public relations that builds and maintains mutually beneficial relationships with shareholders and others in the financial community”. However, Marcus and Wallace (1997:2;313) contest this view and state that investor relations is not merely public relations directed at the financial community, but a highly specialised and separate field. More information about the confusion around terminology is provided in Chapter 2.

1.6 Delimitation of study and research methodology

It is important to identify the major focus of a study and ensure that it is comprehensively dealt with. This is vital, especially when the field of enquiry is characterised by limited prior research. In such cases, a natural response is to attempt too much at once.

The focus of this study is mainly on the first aspect of financial communication, as identified by Wilson (1980:10): the organisation (and management) of financial communication. However, the construct “inclusive approach to financial communication” touches on the second aspect as well: various audiences (or stakeholders) with which the organisation communicates. The third and fourth aspects, communication messages (information) and communication channels fall outside the scope of this study.

Another way to explain the delimitation of this study is by means of the systems model of problem solving, developed by Mitroff, Betz, Pondy and Sagasti (1974:48). This model is depicted in Figure 1.2.
The model takes a systems approach to the different varieties of scientific activities and has no definite starting or ending points. Research is seen as a continuous process that may begin at any of the four circles. One researcher may start at Circle I (the identification of a reality problem situation), develop a conceptual model (Circle II) through Activity 1 (conceptualisation) and formulate a scientific model (Circle III) through Activity 2 (modeling). Another researcher may follow up by deriving a solution (Circle IV) from the scientific model (through Activity 3 – model solving) and implement it in practice (Activity 4, which loops back to Circle I).
Mitroff et al. (1974:53) remark that a single research project rarely covers all the circles and activities. Rather, various combinations of circles and activities can be used. For example, a researcher might choose not to proceed from Circle III to Circle IV, but to “loop” back to Circle I and validate the scientific model (through Activity 6). Another researcher might decide not to implement the solution to a problem (Circle IV), but to refine the conceptual model (Circle II) through Activity 5 (feedback in the narrow sense). According to Mitroff et al. (1974:47) there are 3,555 different possible combinations of the different elements of the model.

The research for this dissertation is limited to Circle I, Activity 1 and Circle II. In the first phase, the problem this study seeks to address (confusion regarding the nature, management and organization of financial communication) will be described. This will be done by means of a review of public relations, investor relations and accounting literature. During the second phase, a conceptual model for an inclusive and integrated approach to financial communication will be developed, based on the literature review mentioned above, as well as a review of corporate governance, corporate social responsibility, stakeholder and relationship management literature. The conceptual model will represent a broad framework within which future research about the approach to financial communication can be conducted. It is not within the parameters of this study to develop a scientific model that can be validated or implemented.

In order to supplement the theoretical component of the study, empirical research will be conducted, to establish whether there are indications of an inclusive and integrated approach to financial communication in the South African context. The research will be exploratory in nature, due to the fact that limited prior research has been conducted in South Africa about this topic. Although exploratory research is usually qualitative, the research conducted in this study will be quantitative. The purpose is to obtain a wide range of perspectives on the topic, rather than in-depth information. The sample will be the 300 largest South African companies listed on the Johannesburg Stock Exchange (JSE), based on market capitalisation. Data collection will be done by means of an
electronic questionnaire survey. The questionnaire will consist mainly of close-ended questions, with a limited number of open-ended questions. Descriptive statistics and content analysis will be used to analyse the data obtained. Results will be presented graphically by means of tables, bar charts and pie charts.

1.7 Importance of this study

A limited amount of research has been done about the nature, management and organisation of financial communication in South Africa. Furthermore, research that specifically focuses on the interdisciplinary nature of financial communication is much needed.

This study will contribute to the body of knowledge in financial communication in three ways. In the first place, the current approach to financial communication will be described from two main disciplinary perspectives: investor relations (as part of public relations and as a separate, specialised field) and accounting. Secondly, a theoretical justification will be provided for an inclusive (stakeholder) approach to financial communication. Most importantly, a conceptual model for an inclusive and integrated approach to financial communication will be developed. Academics and practitioners in fields related to financial communication (such as accounting, public relations and investor relations), may find this study, and specifically the conceptual model, a useful starting point for further debate and research.

1.8 Demarcation of chapters

This dissertation consists of nine chapters that form part of four major sections: an introduction (this chapter), a theoretical component (Chapters 2-5), an empirical component (Chapters 6-8), and a conclusion (Chapter 9). Table 1.1 is a summary of the demarcation and content of each of the chapters.
### Table 1.1 Demarcation and content of chapters

<table>
<thead>
<tr>
<th>CHAPTER</th>
<th>CONTENT</th>
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<tr>
<td>Chapter 1: Orientation and general background</td>
<td>The reader is introduced to the problem that the study investigates, as well as the broad context within which the problem exists. The conceptual framework underlying the study is set out.</td>
</tr>
<tr>
<td>Chapter 2: Financial communication – an investor relations perspective</td>
<td>The current approach to financial communication is described from an investor relations perspective. It is noted that no clear distinction can be made between the terms “investor relations” and “financial public relations”, although investor relations is currently seen as a specialised field, apart from public relations. The main emphasis is on the management and organisation of financial communication.</td>
</tr>
<tr>
<td>Chapter 3: Financial communication – an accounting perspective</td>
<td>Following from one of the conclusions of Chapter 2 (that the accounting profession currently dominates financial communication), the current approach to financial communication is described from an accounting perspective. Major themes are the objectives of accounting and the expanding role of the accounting profession.</td>
</tr>
<tr>
<td>Chapter 4: Theoretical justification for an inclusive approach to financial communication</td>
<td>Perspectives from corporate governance, corporate social responsibility, stakeholder theory and public relations as relationship management are used to justify an inclusive approach to financial communication. One of shortcomings of the current approach to financial communication (a narrow focus on the financial community) is the basis of this chapter.</td>
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<tr>
<td>Chapter 5:</td>
<td>A conceptual model for an inclusive and integrated approach to financial communication</td>
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<tr>
<td>A conceptual model for an inclusive and integrated approach to financial communication is developed, based on the literature review in Chapters 2, 3 and 4. In other words, the most important themes of these chapters are integrated, to form a holistic view of financial communication.</td>
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<th>Chapter 6:</th>
<th>Research methodology</th>
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<td>Survey research has been conducted to supplement the theoretical component of the study. In Chapter 6, the research methodology is described in terms of research strategy, design, methods and techniques.</td>
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<th>Chapter 7:</th>
<th>Research findings – an inclusive approach to financial communication</th>
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<tr>
<td>Results of the questionnaire survey, related to the first construct, “an inclusive approach to financial communication”, are reported and interpreted.</td>
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<th>Chapter 8:</th>
<th>Research findings – an integrated approach to financial communication</th>
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<tr>
<td>Results of the questionnaire survey, related to the second construct, “an integrated approach to financial communication”, are reported and interpreted. Similarities and differences are identified between these results and results of three similar studies conducted previously in the USA, UK and Europe.</td>
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<tr>
<th>Chapter 9:</th>
<th>Conclusion and recommendations</th>
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<tr>
<td>Conclusions are drawn from both the theoretical and empirical components of the study. Based on the limitations of the study, recommendations are made regarding future research.</td>
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The model of Mitroff et al. (1974) has been used to indicate the delimitation of this study. It can also be used to indicate the demarcation of chapters in graphical format. In Figure 1.3, chapters that describe the reality problem situation (theoretically and empirically) are allocated to Circle I (reality problem situation), while the chapters that are used to develop the conceptual model are allocated to Circle II (conceptual model).
Note that broken lines and arrows are used to indicate that the empirical component of the study supplements the theoretical conceptual model.

**Figure 1.3 Demarcation of chapters according to the Mitroff et al. (1974) model**

Adapted from: Mitroff et al. (1974:48)
Research objectives:

1. To describe the current approach to financial communication, from a theoretical perspective.
2. To identify the shortcomings of the current approach to financial communication, from a theoretical perspective.
CHAPTER 2
Financial communication - an investor relations perspective

Where, in its early days, investor relations was a poor adaptation of the basic skills and promotional techniques of public relations, today investor relations is its own science, and its own art form. - Marcus and Wallace (1997:2)

2.1 Introduction
The term “investor relations” has acquired an important place in corporate vocabulary during the last two to three decades. But what exactly is meant by the term is subject to debate, and mostly depends on who uses it. There are mainly two schools of thought regarding investor relations. One regards it as a public relations function; the other as a separate and distinct discipline, although it often still falls under the Finance Director’s department.

The principal objective of this chapter is to describe the current approach to financial communication from an investor relations perspective. This will be achieved by providing an overview of the literature related to the objectives of investor relations, elements of uniqueness, the knowledge and expertise needed for investor relations, and most importantly, the organisation and management of investor relations. Theoretical as well as empirical perspectives will be discussed to elucidate the latter. In order to provide a complete picture of the investor relations approach to financial communication, a short section about the marketing approach to investor relations is also included. Finally, the most important shortcomings of the investor relations approach to financial communication are identified. This particular section establishes the connection between this chapter, Chapter 4 (which provides a theoretical
justification for an inclusive approach to financial communication) and Chapter 5 (where a conceptual model for an inclusive and integrated approach to financial communication is proposed).

In the light of the fact that there is no consensus regarding the meaning of the term “investor relations”, it is essential to establish what is understood by the term for the purposes of this chapter. This is done in the section that follows.

### 2.2 Clarification of terminology

Confusion exists surrounding the terminology associated with financial communication. Wilson (1980:9) observes that the term investor relations is used interchangeably with “financial public relations”, “financial relations”, “financial publicist” or “corporate communications”.

Both the terms “financial public relations” and “investor relations” are used in public relations textbooks. However, in more recent publications, the term “investor relations” is used more commonly. The reason for this might be that there is a growing recognition that financial communication is not merely public relations directed at the financial community (Marcus & Wallace, 1997:2; 313), but that it is a highly specialised and interdisciplinary field.

It is also important to note that most definitions of both financial public relations and investor relations only refer to communication with the financial community. For example, Baskin et al. (1997:317) define financial public relations as the building of positive relationships with the financial community. Cutlip et al. (1994:101) provide a very similar definition, but use the terms “investor relations” and “financial public relations” interchangeably. Arfin (1994:7) refers to “managing the interface” to describe the flow of information between a company and its financial stakeholders. Andrew (1990:22) describes financial public relations as communication with key groups such as financial institutions, investment analysts, shareholders and the financial press.
Marston (1996:477) defines investor relations as the link between a company and the financial community.

Some definitions are even narrower. For example, the definition that Marston and Straker (2001:82) provide only focuses on managing the relationship between a company and its shareholders or potential shareholders. 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. Savage (1970:125) limits the financial community to “those through whom the buyers and sellers of securities transact their business”.

Note that stakeholders who are traditionally not seen as members of the financial community, such as employees or customers, are not included in any of the foregoing definitions. Buchner’s (1994:231) definition of financial public relations is one exception. He defines financial public 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”. Buchner (1994:233-235) adds that, although it is commonly thought that shareholders are the only target audience of financial public 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. 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. It is, however, not made clear what is meant by “other constituencies” (NIRI, 2003).

From the above it becomes clear that the narrower definition of financial communication (i.e. communication with the financial community alone) is dominant. Furthermore, it is not possible to distinguish clearly between the terms “investor relations” and “financial
public relations”, based on the proposition that definitions of investor relations focus on the financial community alone, while definitions of financial public relations focus on other non-financial stakeholders as well (excluding Buchner’s 1994 definition).

Although the term “financial communication” is preferred for the purposes of this dissertation, the term “investor relations” will be used for the remainder of this chapter. The reason is that this chapter is dedicated to a review of relevant investor relations and financial public relations literature. The main theme of this chapter is the current approach to the organisation and management of investor relations. In order to contextualise this theme, it is necessary to briefly relate the historical background of investor relations.

2.3 Historical background

The roots of investor relations can be traced to the mid-1930s when the Securities Act of 1933 and the Securities Exchange Act of 1934 were instituted in America (Seitel, 2001:458). According to Marston (1996:479), investor relations was also first recognised as a management specialism in America. During the 1960s investors turned to stock markets to strike their fortunes (Seitel, 1995:398). During this period, former financial journalists took responsibility for writing press releases and exchanging financial information with newspapers (Davis, 1995:72). Companies also relied on their brokers and merchant bankers for advice on communication and informal investor relations (Arfin, 1994:5).

According to Marcus and Wallace (1997:311), investor relations was mainly performed by public relations practitioners (who had limited knowledge or understanding of the financial world) until about 1975. During this period, communication with shareholders did not take up much of management’s time, except for the few occasions where the Chief Financial Officer responded to shareholders’ questions. Investor relations amounted to little more than crisis management (Rao & Sivakumar, 1999).
Investor relations slowly but surely became an integral part of public relations programmes and gained special prominence during the 1980s, the beginning of the era of takeovers and mergers (Cutlip et al., 2000:474). By the 1990s, investor relations had become a full-time professionalised operation (Rao & Sivakumar, 1999).

With the dawn of the new millennium, investor relations is still increasing in importance and is seen as one of the most challenging areas of corporate communication (White & Mazur, 1996: 218). There is, however, a recent trend towards the isolation of the investor relations function from the corporate communication or public relations functions (Diamond 1997:29). This trend becomes even more evident in the discussion of the organisation and management of investor relations in Section 2.7.

According to Davis (1995:73) the following are the main reasons for the growth of the investor relations profession:

- The scope and influence of the financial press has increased. Increasing numbers of newspapers and magazines report on business and an increasing amount of space is devoted to financial news within the wider media.
- Deregulation, globalisation and the impact of electronic trading and information systems have resulted in information being distributed to a wider audience more promptly and equitably.
- The globalisation and growing importance of institutional investment. This view is also expressed by McGrath (1974:ix).
- The introduction of more and more rules governing the disclosure of financial information.

Marston (1996:479) refers to another reason that can be added to the list above. Due to the increasing sophistication of the world’s capital markets, increasingly sophisticated information is needed to facilitate investment decisions. These developments necessitated a much more professional approach to communication between companies and financial stakeholders. In earlier years, there was little systematic
attempt to decide what the company should be communicating and to whom. In order to facilitate a more professional approach to investor relations, more clarity is needed in terms of its objectives.

2.4 Objectives of investor relations

The objectives of investor relations, as stated in the literature, are numerous and diverse. Some are very general, while others are very specific. Some of the general objectives include:

- to assist a company in achieving its corporate objectives in order to reward shareholders for their investment (Andrew, 1990:15);
- to convey something of the spirit of the company and its objectives (Smith, 1989:12);
- to help a company compete in the capital markets (Marcus & Wallace, 1997:1; McBride & McBride, 2001);
- to attract resources, especially capital (Baskin et al., 1997:318, McGrath, 1974:9);
- to lower a company’s cost of capital (Baskin et al., 1997:317; Thompson in Allen, 2002:209);
- to build positive relationships with the financial community (Baskin et al., 1997:317); and

The following objectives specifically relate to the decision to invest in a company:

- to minimise investor risk by providing information that is clear and understandable (Thompson in Allen, 2002:209);
- to build trust and credibility amongst investors (Allen, 2002:207; Arfin, 1994:38);
- to create and maintain investor confidence (Baskin et al., 1997:317; Farragher et al., 1994:404; Fleck, 1997:17-18; Hanrahan, 1997:149);
- to disclose information that will have an impact on investors' decisions to buy, sell or hold shares (Seitel, 2001:458);
to tell the company’s story to investors: its performance, strategy and prospects (Green, 1997:11);
- to attract new investors (Baskin et al., 1997:319); and
- to help the financial community and investment public to evaluate the company as an investment opportunity (Buchner, 1994:231; Smith, 1989:13).

According to Dilenschneider (2000:44), there is some controversy surrounding the objectives of investor relations. Some companies declare that enhancing shareholder value is their one and only objective. Others perceive this objective as too narrow and also focus on serving employees, customers and the community.

One objective, which has especially stimulated a lively debate, is related to the impact of investor relations on a company’s share price and price/earnings ratio (P/E). A conservative view in this regard is that the objective of investor relations is to help stabilize a company’s share price, or to help it reach an appropriate level (Baskin et al., 1997:319; Farragher et al., 1994: 403; McGrath, 1974:8; Savage, 1970:122; Seitel, 2001:458; Smith, 1989:9). But according to Savage (1970:125), this is a euphemism for “get the price of the stock up to where it realistically belongs and keep it there”. McBride and McBride (2001) claim that one of the primary purposes of investor relations is to increase a company’s share price. In a survey conducted by Petersen and Martin (1996:203), it was found that CEOs of the 250 largest non-banking companies in Florida (USA) considered increasing the share price as a very important outcome of IR.

Smith (1989:9;13) opposes this view and declares that the purpose of investor relations is not, and should not be, to push up a company’s share price. He claims that the role of investor relations is to provide comprehensive information for independent assessment of the company and its prospects, and not to actively promote the purchase or sale of its shares. In contrast, McBride and McBride (2001) believe that investor relations is a marketing function. It is therefore quite logical that a company will market its shares to investors in similar fashion as it markets its products to buyers.
Farragher *et al.* (1994:403) adopt a critical stance and state that investor relations activities only involve the sophisticated repackaging of available information and are, thus, irrelevant when it comes to share price movement. Grunig and Hunt (1984: 350) remark that investor relations should entail more than mere disclosure of financial information. According to them, information should be interpreted and simplified for message retention to take place. Savage (1970:125) holds a similar view. Written messages form an essential part of financial communication. However, recipients will not necessarily understand, or even read, these messages if they are not presented in a user-friendly format.

Allen (2002:209) warns against the use of a “magic number” (such as share price or earnings per share) to evaluate a company’s performance. Although important, a company’s share price and earnings per share should be evaluated within the context of other information available about the company. Collingwood (2001) maintains that the quarterly earnings number is not so useful in predicting a company’s future performance. A real danger associated with the fixation with “magic numbers” such as share price or earnings as indicators of company performance, is that Top Management then tend to pursue ever-increasing levels, which is only in the short-term interest of the company (Atkinson 2002:214).

It is clear from the above, that the objectives of investor relations make it unique in many aspects. The most important distinguishing features of investor relations are discussed in the following section.

### 2.5 Investor relations: elements of uniqueness

Buchner (1994:232) identifies five elements that distinguish investor relations from other fields of public relations. The first distinguishing element is that the target audiences or publics of investor relations have very specific information needs, which usually is of little value or interest to other publics. According to Grunig and Hunt (1984:348), these publics are usually active publics. According to the situational theory of publics, active publics organise to discuss and do something about a problem. In this case the problem might
entail the decision whether or not to buy a company’s shares. In other words, these publics control the resources that enable a company to exist. Grunig and Hunt refers to this type of linkage between a company and publics as an “enabling” linkage (1984:140).

According to Buchner (1994:232) the second element relates to the tools or media used for investor relations. Other fields of public relations do not commonly use annual reports, interim or quarterly reports, preliminary profit statements, or annual general meetings to communicate with publics. The third element of uniqueness is the skills and knowledge required for investor relations. This element will be dealt with in more detail in Section 2.6.

The fourth element that makes investor relations unique is the timing of communication. The release of financial information is governed by law (for example the Companies Act, 1973), the Listing Requirements of the Johannesburg Stock Exchange (JSE), as well as rules related to Generally Accepted Accounting Practice (GAAP). A company is obliged to disclose certain information at certain points in time, which does not necessarily serve the company’s best interests at these particular times.

A fifth, closely related element of uniqueness, is the message itself. Due to the legal and statutory requirements mentioned previously, companies are obliged to disclose information that might not always be in its best interests, for example the announcement of a significant financial loss (Buchner 1994:233).

Grunig and Hunt (1984:21; 348-349) make a connection between this fifth element of uniqueness and the four models or types of public relations that they have identified, namely the press agentry model, the public information model, the two-way asymmetrical model and the two-way symmetrical model. According to Ledingham, Bruning and Wilson (1999:169) the press agentry model focuses on publicity, rather than truthfulness of message content. The public information model, on the other hand, emphasises truthfulness and objectivity, but only favourable information about the organisation is disseminated (Grunig & White, 1992:39). Public relations based on the two-way asymmetrical model uses research to determine which messages are most likely to
persuade publics to behave as the organisation wants them to. According to Grunig and White (1992:39) an asymmetrical worldview underlies each of these three models. Only one model, the two-way symmetrical model is based on a symmetrical worldview. Public relations based on this model focuses on dialogue, conflict management, improving understanding and building relationships with publics.

According to Grunig and Hunt (1984:348-9), legal and statutory requirements limit investor relations to the use of the public information or two-way symmetrical models of public relations. Due to very specific rules and guidelines regarding the disclosure of financial information, investor relations cannot employ tricks, associated with the press agentry model, or limited disclosure associated with the two-way asymmetrical model.

As was mentioned previously, one of the distinguishing features of investor relations is the knowledge and expertise it requires. This feature is examined in more depth in the following section.

2.6 Knowledge and expertise needed for investor relations

Grunig and Hunt (1984:349) contend that investor relations is a highly specialised field, which requires knowledge of corporate finance, law, economics and public relations. Baskin et al. share this perspective, but add that marketing communication skills are also necessary (1997:324). According to Petersen and Martin (1994:33) these requirements hold multiple implications for public relations education. Public relations students will have to be provided with a detailed understanding of finance and mass communication law, each requiring a separate course. Wilson (1980:11) maintains that large corporations often do have professionally trained investor relations specialists who are affiliated to organisations such as the National Investor Relations Institute (NIRI) and the Public Relations Society of America (PRSA).

In contrast, Marcus and Wallace (1997:311; 316) declare that investor relations is no longer the purview of public relations. A public relations practitioner with no financial background is not qualified for the investor relations function. They do however,
acknowledge that a financial executive with no communication training or experience is not qualified either. The investor relations professional should therefore have an understanding of corporate finance, accounting, investment banking and corporate structure. Other requirements include an intimate knowledge of how the capital markets work, communication and marketing skills, an understanding of the full scope of corporate activity, experience and knowledge of the financial media, and experience and skills in the writing of press releases, annual and interim reports and speeches (1997:319).

Marcus and Wallace add that investor relations professionals are not drawn from any single source that has prepared them educationally for the role. Currently, most investor relations executives are former analysts, or financial or legal executives (1997:315; 318). This leads to one of the major themes of this dissertation, namely the current approach to the organisation and management of financial communication.

2.7 Organisation and management of investor relations

The organisation and management of investor relations has been a subject of debate for many years. Approaches to the organisation and management of investor relations vary widely (Ferris & Newman, 1991:19; Hanrahan, 1997:149; Marston, 1996:483). Concerns about fragmentation and lack of co-ordination in investor relations have been expressed by Ferris and Newman (1991), Johnson (1990), Neilson (1990) and Petersen and Martin (1994;1996).

Previous research about the responsibility for investor relations has mainly concentrated on two areas:

- Which department takes responsibility for the execution of investor relations (organisation of investor relations)?
- To which individual (senior manager or Board member) does the department responsible for the execution of investor relations, report (management of investor relations)?
Although many authors do not explicitly make this distinction, it makes it easier to gain an overall perspective of the different approaches to investor relations.

### 2.7.1 Organisation of investor relations on the functional/departmental level

Hanrahan (1997:149) observes that investor relations can be the responsibility of many departments. White and Mazur (1996:219) and McGrath (1974:36) report that some companies place investor relations in the Financial Director’s department, while others place it in the Communication, Public Relations or Public Affairs department.

Major public relations textbooks generally consider investor relations (also referred to as financial public relations or financial relations) as a component of public relations (Baskin et al., 1997; Cutlip et al., 2000; Grunig & Hunt, 1984; Seitel, 2001). Cutlip et al. (1994:19), for example, define investor relations as “the specialized part of corporate public relations that builds and maintains mutually beneficial relationships with shareholders and others in the financial community”.

Dilenschneider (2000:33) comments that, because investor relations is about communication, it is still considered as part of a corporation’s overall public relations. Petersen and Martin (1994:33) warn that, if this is the case, it is a very demanding task and holds implications for public relations education (see Section 2.6 above). Andrew (1990:185), however, considers investor relations as part of a company’s overall communication, on equal footing with (and not part of) public relations.

According to Diamond (1997:29) there is a recent trend towards the isolation of investor relations from corporate communication or public relations. A reason for this is that public relations practitioners are criticised for their lack of understanding of the financial world. They are therefore not respected, or taken seriously by the investment community (Morrissey in Petersen & Martin, 1994:10). According to Marcus and Wallace (1997:2), investor relations in its early days was “a poor adaptation of the basic skills and promotional techniques of public relations”, but is seen today as a separate, distinct
practice. Wilson (1980:11) and Morrissey (in Petersen & Martin, 1994:10) to the contrary, regard investor relations as an integral part of the financial management function.

It is evident that, theoretically speaking, there is no single approach to the organisation of investor relations. Furthermore, it is possible to make a distinction between how large and small companies organise investor relations. Neilson (1990:26) remarks that, while there tend to be turf wars between investor relations and other public relations functions in large companies, small companies usually have only one Communication Officer who is responsible for public relations as well as investor relations. This is usually the case as a result of budgetary constraints (Savage 1970:123). An advantage of this scenario is that it is easier to ensure that the company “speaks with one voice”.

According to Oliver and Rodriguez (2003), the Investor Relations Officer (IRO) of a small company might also be the company’s Treasurer or Corporate Secretary. Neilson also reports that it is not unusual for the Chief Executive Officer (CEO) and/or Chief Financial Officer (CFO) to take personal responsibility for communication with the financial community (1990:26).

Various empirical studies have been undertaken to investigate the organisation of investor relations. The findings of the most important studies relevant to this study are summarised in Table 2.1. The findings are broadly classified in terms of department responsible for investor relations, person responsible for investor relations and the reporting structure (the senior manager to whom the person responsible for investor relations reports).
Table 2.1   Summary of results of previous studies about the organisation and management of investor relations

<table>
<thead>
<tr>
<th>STUDY</th>
<th>SAMPLE</th>
<th>DEPARTMENT RESPONSIBLE FOR IR</th>
<th>PERSON RESPONSIBLE FOR IR</th>
<th>REPORTING STRUCTURE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1967 Conference Board (See McGrath 1974)</td>
<td>196 companies (not specified)</td>
<td>Not investigated</td>
<td>Financial executive: 39%</td>
<td>Not investigated</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>IRO: 2%</td>
<td></td>
</tr>
<tr>
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</tr>
<tr>
<td>McGrath 1974</td>
<td>119 “leading-edge” companies who had organised and recognised IR programmes</td>
<td>Not investigated, although it is stated that IR has become a recognised and separate function.</td>
<td>IR executive (47 of 119 of respondents had an IR executive)</td>
<td>38 IROs reported through financial channels 10 IROs reported to PR</td>
</tr>
<tr>
<td>Marston 1991 (See Marston 1996)</td>
<td>Top 500 UK companies</td>
<td>Separate IR Dept: 8.9%</td>
<td>No designated IRO: 48%</td>
<td>Majority of IROs reported to Financial Director or CEO</td>
</tr>
<tr>
<td></td>
<td></td>
<td>IR as section of PR: 19.9%</td>
<td>IR as part of responsibilities: 32%</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>IR carried out by Fin. Director’s Dept.: 35.9%</td>
<td>IR main responsibility: 20%</td>
<td></td>
</tr>
<tr>
<td>Petersen and Martin 1994 (Also see Petersen and Martin, 1996)</td>
<td>Top 250 non-banking listed companies in Florida, USA</td>
<td>Financial department: 48 of 76 respondents</td>
<td>Not investigated</td>
<td>Chief Financial Officer: 43 of 76 respondents</td>
</tr>
<tr>
<td></td>
<td></td>
<td>IR department: 27 of 76 respondents</td>
<td></td>
<td>Chief Executive Officer: 43 of 76 respondents</td>
</tr>
<tr>
<td></td>
<td></td>
<td>PR department: 9 of 76 respondents</td>
<td></td>
<td>Chief PR Officer: 10 of 76 respondents</td>
</tr>
<tr>
<td></td>
<td></td>
<td>CEO: 17 of 76 respondents</td>
<td></td>
<td>Chief IR Officer: 2 of 76 respondents</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(Multiple responses allowed)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Marston and Straker 1998 (See Marston &amp; Straker 2001)</td>
<td>Top 80 European companies (excluding UK-based companies)</td>
<td>Have IR department: 96%</td>
<td>Employ an IRO: 87%</td>
<td>Not investigated</td>
</tr>
<tr>
<td></td>
<td></td>
<td>No IR department: 4%</td>
<td>No IRO: 13%</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Separate IR department: 54%</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Within Fin. Director’s department: 31%</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Section of PR department: 5%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
During 1991, Marston conducted a survey amongst the Top 500 UK companies and found that 35.9% of the respondents placed investor relations under the Finance Director’s department. 19.9% of the respondents indicated that the Public Relations department carried out investor relations (1996:482; 484). During 1994, Petersen and Martin (1994:ii) investigated how the CEOs of the 250 top non-banking listed companies in Florida (USA) perceived the investor relations function. The results revealed 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 investigated the approach to investor relations followed by the top 80 European companies (excluding UK-based companies). The study focused on the existence of an investor relations function, its position within the organisation, the employment of an Investor Relations Officer and basic investor relations functions. The results revealed, amongst other things, that 31% of the respondents stated that investor relations was conducted within the Finance Director’s department. Only five percent of respondents indicated that investor relations was part of the Public Relations department (2001:87).

Wilson (1980:11) notes that large companies usually have entire departments dedicated to the investor relations function. In the 1998 survey conducted by Marston and Straker, it was found that 96% of respondents had a separate Investor Relations department (2001:85). In contrast, the results of a 1991 study conducted by Marston amongst the top 500 UK companies, indicated that only 8,9% of respondents had a separate Investor Relations department (1996:484). Although these studies were carried out in different countries, the results suggest the increasing importance of investor relations. Marston, for example, remarks that if a company views investor relations as important, it is more likely to make formal arrangements (1996:482).

Although it is not possible to compare the findings of these studies, as they were conducted in different countries at different times, it becomes clear that no single approach to the organisation of investor relations has crystallised over the years. Note the time span
of more than 30 years between the first 1967 Conference Board study and the most recent one in 1998 by Marston and Straker (2001) (see Table 2.1). It is apparent, however, that Financial departments take responsibility for investor relations much more often than Public Relations departments.

Furthermore, the results of these studies contradict the public relations literature, as well as the conventional wisdom of practitioners, that investor relations is part of corporate public relations (Petersen & Martin, 1996:173; 205). Grunig and Hunt’s (1984:352) definition of investor relations as a “hybrid of public relations and corporate finance” seems to portray corporate reality more accurately. However, Petersen and Martin (1994:3) remark that this definition could lead one to believe that these disciplines are equal contributors to investor relations. The aforementioned research results clearly indicate that this is not the case.

It is not possible to provide a complete picture of current approaches to investor relations by only looking at organisation at the functional or departmental level. It is also necessary to explore the different reporting relationships employed in investor relations (in other words, the management of investor relations).

2.7.2 Reporting relationships in investor relations
According to Marston (1996:481), company personnel of varying degrees of seniority can take responsibility for the management of investor relations. At the lower end of the reporting structure, one usually finds an Investor Relations Officer (IRO). In 1998, Marston and Straker (2001:86) found that 87% of the companies they surveyed had an Investor Relations Officer. In her 1991 study, Marston (1996:482) found that 52% of respondents had an Investor Relations Officer. In most of these cases, investor relations was only part of the duties of the person responsible. Furthermore, in 30.2% of the cases the Investor Relations Officer was a Board member (usually the Finance Director). In the rest of the cases the IROs were managers with varying degrees of seniority. These managers reported to members of the Board (notably the CEO or Finance Director).
Marcus and Wallace (1997:316) and Wilson (1980:10) contend that to be effective, the Investor Relations Officer must have ready access to Top Management. The person must also have the ear and the respect of the CEO or CFO; otherwise he or she is merely a clerk. This means that he or she must be fully informed with regards to top-level policy and planning (Savage, 1970:127).

Arfin (1994:49) introduces a broader perspective by stating that the investor relations function can report to two people, namely the Corporate Affairs Manager and the Financial Director. However, most of the investor relations literature, as well as the findings of several empirical studies, tend to favour the Financial Director (also referred to as the Chief Financial Officer). For example, White and Mazur (1996:219) report that in many cases, investor relations is the responsibility of the Financial Director, with the Head of Public Relations playing a strong role in presentation (which can be interpreted as being a supporting role). In other instances, investor relations is seen as part of public relations, but the Financial Director still assumes final responsibility.

Wilson (1980:11) also indicates that the financial executive is usually in charge of investor relations. Marcus and Wallace (1997:53), on the other hand, point out that in large corporations, the Chief Financial Officer is responsible for many functions, including the investor relations function. Therefore, investor relations is usually delegated to an Investor Relations Officer.

Perhaps the most important role player is the Chairman and/or Chief Executive Officer. Smith (1989:15) is of the opinion that investor relations should report directly to the Chairman and/or Chief Executive Officer, no matter where the function is placed in a company. Wilson (1980:11) suggests that, while the Financial Director is usually in charge of investor relations, he or she reports directly to the President of the corporation.

It is important to note that the CEO does not only assume final responsibility for investor relations. According to Gummer (in Marston, 1996:478), the CEO is responsible for the investor relations policy. It is the prerogative of the CEO to determine how investor
relations is organised and conducted in its entirety. According to Marcus and Wallace (1997:52), the role of the CEO is to keep the company’s earnings and value of its equity at a high or increasing level. It is therefore important that the CEO must set down clear guidelines of what he or she believes investor relations can and must achieve for the company. This should be done in consultation with the Company Secretary, the Finance Director and Public Relations Officer (Gummer 1995:50). Neilson (1990:26) points out that problems arise when the CEO takes personal responsibility for communication with the financial community, without informing the Public Relations Officer of what is being done.

In an attempt to explain why the public relations theory and the practice of investor relations differ, Petersen and Martin (1996:180) refer to the role of the CEO. They assert that this phenomenon can partly be ascribed to encroachment, either directed or allowed by the CEO. Encroachment is interpreted as the assignment of persons who do not have any training or expertise in public relations, to manage the public relations function in an organisation. The rationale behind this, at least in terms of investor relations, is that communication with financial stakeholders must adhere to strict statutory requirements. It is therefore not strange that CEOs would rather select executives who understand and can cope with the complexity of these requirements (Petersen & Martin 1996:174).

Besides investigating the organisational structure of investor relations, many of the studies referred to in Section 2.7.1 also investigated the reporting structures used in investor relations (see Table 2.1). The Conference Board, one of America’s leading business research organisations, conducted several surveys in this regard. In a 1974 study, McGrath found that most investor relations executives reported through financial channels, rather than public relations or communication channels (1974:42). Furthermore, McGrath (1976:51) found in another study that Chief Executive Officers assume direct responsibility for certain investor relations activities, for example meeting with important institutional investors and groups of key analysts, leading the annual general meeting and dealing with inquiries from major stockholders. The results of a 1987 Conference Board study on the organisation of corporate external relations and communications departments revealed
that in 70% of the firms surveyed, investor relations programmes reported to company executives other than Public Affairs executives (Lusterman 1987:5).

Rao and Sivakumar (1999) report that the National Investor Relations Institute in America (NIRI) conducted surveys amongst investor relations executives in 1985 and 1989 and found that two-thirds of the respondents reported either to their company’s Chief Financial Officer, Chief Executive Officer or Chairman. Dilenschneider (2000:33) reports that a 1995 NIRI survey yielded similar results. 35% of investor relations staff members reported to CEOs and 52% to CFOs.

During 1991 Marston (1996) found that various directors, including the CEO and the Financial Director, took responsibility for the management and execution of investor relations. In the 1994 study conducted by Petersen and Martin, CEOs preferred that Financial Affairs executives supervise investor relations (1994:ii).

At this stage, it is important to note that there is not necessarily a direct correlation between the departmental organisation of investor relations and the reporting structure used. In other words, even if investor relations is organised as a separate department, and even if an Investor Relations Officer is appointed, in most instances the Financial Director or Chief Executive still assumes final responsibility. In 1998 Marston and Straker (2001:92) found that, although 96% of their respondents had a separate Investor Relations department, in some cases it was still connected to the Finance Director’s office.

2.7.3 Senior management involvement in investor relations
There is also evidence in the literature that, notwithstanding the reporting relationships described previously, senior management involvement in investor relations is crucial. Marston (1996:481) maintains that it is desirable for the Board of Directors to be involved in managing as well as executing investor relations programmes. Wilson (1980:10) concurs by stating that investor relations is a Top Management responsibility. Active Top Management support is necessary to increase the visibility of a company in a highly competitive financial market (McBride & McBride, 2001). Andrew (1990:23) notes that the
active involvement of Board members is what distinguishes investor relations from other types of public relations activities.

According to Smith (1989:15), the Chairman, CEO and Finance Director - not the investor relations function - must act as the face and voice of the company. It is important that what they say supports the company’s communication objectives and corporate strategies and co-ordination is therefore essential (Andrew 1990:23; Smith, 1989:13). Open communication between a company’s Board of Directors and the investment community is at the heart of a good investor relations programme (Anon., 2000).

2.7.4 The role of consultants/agencies in investor relations

The role of investor relations consultants is not the main focus of this study. Because investor relations is such a specialised practice, they do however play an important role. According to Marston (1996:478), there should be an in-house team responsible for investor relations, supported by outside help. McBride and McBride (2001) note that investor relations consultants usually have years of experience in the financial and investment markets and can therefore provide Management with strategic counsel.

Coyle (1990) suggests that a company should use investor relations counsel as it uses lawyers, accountants and management consultants: utilise their breadth of industry knowledge, unbiased position and specialised expertise. Ferris and Newman (1991:19) maintain that investor relations consultants serve as a conduit for information exchange between senior management and members of the investment community.

Services provided by investor relations consultants vary. Coyle (1990) identifies three integrated but distinct areas where investor relations counsel can be of assistance, namely corporate disclosure documents, investment community contact and financial media relations. In terms of corporate disclosure documents, McBride and McBride (2001) suggest that investor relations consultants co-operate closely with the client to ensure that all necessary information is included to comply with statutory requirements.
McBride and McBride (2001) add that IR consultants can also assist in developing mailings lists of analysts and existing and potential investors, issue financial press releases and prepare other written materials such as investor fact sheets, presentations to analysts, articles for industry publications and management speeches. Consultants also offer invaluable support in issues and crisis management, such as communication during buyouts, mergers and takeovers (Hanrahan, 1997:149).

From the above it is clear that investor relations agencies can provide services that range from strategic thinking to technical execution. However, the investor relations picture is still incomplete. Besides the role players that have been identified in this section (public relations, accounting/finance and investor relations specialists/consultants), another contender has entered the turf war surrounding investor relations: marketing.

2.8 The marketing approach to investor relations

There is a growing body of literature that suggests that investor relations is a marketing function. Although the emphasis of this study is only on the role of public relations and accounting, for the sake of completeness, the marketing approach to investor relations is briefly related.

Petersen and Martin (1996:177) report that the National Investor Relations Institute in America (NIRI) define investor relations as a “corporate marketing activity combining the disciplines of communication and finance…” Dilenschneider (2000:33) and Jameson (1996:185) concur. In other words, the roles of communication and finance are still acknowledged. However, Johnson (1990:28) remarks that investor relations and other forms of public relations are all forms of marketing.

Johnson (1990:28) uses an analogy to explain why investor relations is a marketing function: the company is the product and the annual report, quarterly reports and news releases are the packaging. The product is distributed by means of analyst meetings, annual general meetings, advertising and the financial media, and the customers are individuals, brokers, institutions, analysts and the communities in which the company
operates. Jameson (1996:186) refers to the importance of targeting certain market segments, as a company’s shares are not appropriate for all investors or portfolios. Breakstone (2001) and McBride and McBride (2001) are even more direct, by asserting that investor relations sells a company’s shares in much the same way as its products are sold. These views portray investor relations as a marketing function in a very narrow sense.

There are broader views as well. The second part of the NIRI definition of investor relations refers to the provision of information to present and potential investors in order to accurately portray a company’s performance and prospects (Petersen & Martin, 1996:177). Responsibilities of investor relations, according to Jameson (1996:185), include ensuring that a company’s message addresses the information needs of investors and that it is presented in an understandable format. In other words, the focus is not entirely on selling a company’s shares. Jameson adds that the product that investor relations sells - information - is intangible (1996:188).

A last important aspect of the marketing approach is that investor relations is considered to have strategic importance. The most recent NIRI definition of investor relations states that it is a strategic management responsibility (NIRI, 2003). Marcus and Wallace (1997:2) remark that a new role for investor relations is emerging - strategic planning. Although these authors state that investor relations is now driven by marketing and its disciplines, they add that it is a science and an art form beyond the craft of marketing.

2.9 **Shortcomings of the investor relations approach to financial communication**

The most important shortfall that immediately comes to mind, is the lack of co-ordination and integration in investor relations, as referred to by Ferris and Newman (1991), Johnson (1990), Neilson (1990) and Petersen and Martin (1994;1996). Empirical research results suggest the same (Lusterman, 1987; Marston, 1996; Marston & Straker, 2001; McGrath, 1974; McGrath, 1976). What complicates the matter, is that there are discrepancies
between what the public relations literature says about the organisation and management of investor relations, and what these research results reveal.

Several authors call for a more integrated approach to financial communication. Ferris and Newman (1991:18) and McMullen (1990:31) report a growing need for interdependence between investor relations and other corporate communication professionals. According to Johnson (1990:26) there are numerous advantages related to increased co-operation between investor relations and other public relations. Unfortunately, companies often only realise the importance of a unified effort when it is too late. Smith (1989:13) emphasises that when a number of people, including directors, are involved in the investor relations effort, co-ordination is essential.

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 Chapter 4 that financial communication should involve a wider spectrum of publics or stakeholders. This argument will be supported by highlighting new trends and developments in public relations and general management theory.

2.10 Conclusion

The term “investor relations” is not an unfamiliar one. In fact, one comes across the term in literally thousands of short articles published in trade and business publications. What has become apparent in this chapter though, is that there is not consensus on what the term means, what the function entails, or how it should be organised and managed.

The objectives of investor relations, as stated in the literature, are varied. Some of these objectives also contribute to the uniqueness of investor relations, as compared to other forms of public relations. One distinguishing factor is the knowledge and expertise needed for investor relations. It is evident that a strong financial (accounting as well as financial management) as well as a public relations (or corporate communication in the broader sense) background is needed.
One theme that emerges from the discussion of the organisation and management of investor relations, is the domination by the Financial department and its executive (the Chief Financial Officer or Financial Director). In Chapter 5 it is argued that financial communication should be an integrated process, where both accounting and public relations play an important role. In order to support this argument, it is necessary to explore financial communication from an accounting (and accountant's) perspective and identify the shortcomings of this approach. This is done in Chapter 3, where financial communication is explicated from an accounting perspective.
Research objectives:
1. To describe the current approach to financial communication, from a theoretical perspective.
2. To identify the shortcomings of the current approach to financial communication, from a theoretical perspective.
CHAPTER 3
Financial communication - an accounting perspective

Accounting’s influence spans the full range of our life experience, from the mundane to the globally consequential. - Lehman (1992:1)

3.1 Introduction
In Chapter 2 it became evident that the accounting profession and professional play a major role in financial communication. The main objective of this chapter, therefore, is to investigate this role in more detail. The role of accounting can, in the first place, be described in terms of six “images” which have evolved over the years.

Accounting’s role in financial communication can also be investigated by looking at two main objectives of accounting (some authors also refer to paradigms), namely the accountability or stewardship objective and the decision-usefulness objective. There are mainly two schools of thought regarding these objectives. According to the first school of thought, accountability (or stewardship) to the owners and investors of a company is the most important objective of accounting. This is the traditional narrow view of accounting and is based on a rights-based philosophy.

The second school of thought regards the objective of accounting as providing information that enables various users to make optimal decisions regarding the allocation of their scarce resources. This objective is broader and also encompasses the accountability objective. Decision-usefulness is based on a utilitarian philosophy, also referred to as the ethics of care. Accounting is seen as playing an important role in the welfare of society as a whole. Critical accounting is a field of accounting research that specifically investigates this role of accounting. A natural result of this train of accounting thought has been the emergence of corporate social accounting.
Not only have perspectives surrounding accounting as discipline broadened in recent years, the profession itself is also expanding beyond the traditional borders of the discipline. Accounting professionals are assuming broader responsibilities every day, including management consulting and investor relations. This expanding role holds important implications for accounting education, as well as for the disciplines subject to this encroachment.

3.2 What is accounting?
Accounting theory has evolved over time. Davis, Menon and Morgan (1982:309) describe accounting as four distinct “images” in an attempt to portray something of the evolution of accounting theory over the years. The four images describe accounting as 1) a historical record, 2) a descriptor of current economic reality, 3) an information system, and 4) a commodity. Belkaoui and Jones (1996:66) add two more images to the list, namely 5) accounting as ideology and 6) accounting as a language. These images should not be seen as one following or replacing the other. Each one emphasises different aspects. For example, the image of accounting as ideology is more philosophical in nature than the other five images. This image is therefore discussed first in the section that follows. The image of accounting as an information system is discussed last, as it provides a logical transition to the sections about the objectives of accounting.

3.2.1 Accounting as an ideological phenomenon
The first image of accounting is that of an ideological phenomenon that sustains and legitimises the current social, economic and political order. Karl Marx criticised accounting for “mystifying rather than revealing” the real nature of the relationships between business and society (Belkaoui & Jones, 1996:66). Lehman (1992:1) refers to accounting as myth maker in this regard. Accounting, with its countless rules and standards, makes it difficult, if not impossible, for most members of society to make sense of accounting information, not to mention using it for decision-making purposes. Accountants, as well as those who can interpret and use the information, are therefore
not only in a privileged position, but also in a very powerful one. Critical accounting represents a body of research that is concerned with the ideological role of accounting in society. A more in-depth discussion of critical accounting follows in Section 3.6.

3.2.2 Accounting as a language
Belkaoui and Jones (1996:66) refer to a second image of accounting as the language of business. This analogy is taken further by comparing the use of accounting language in financial reports to the use of a language, such as English, in newspapers to report events. Using the accounting language holds the same dangers as any other language, namely misunderstanding, or even misrepresentation.

3.2.3 Accounting as historical record
According to the “historical record” image, accounting is seen as recording the history of the organisation in financial terms (Davis et al., 1982:309). These historical records make it possible for owners or shareholders of a company to assess the quality of stewardship of the managers of the company (Belkaoui & Jones, 1996:68; Laughlin & Lowe, 1990:17). The notion of stewardship is central to agency theory and will be discussed in more detail in Section 3.3.

Mautz and Sharaf (1961) and Willmott (1990) provide definitions of accounting that contain elements of the “historical record” image of accounting. Mautz and Sharaf (1961:14) define accounting as the collection, summarisation, and communication of financial data. No explanation of what is meant by “communication” is given in the definition, but could be interpreted as “disclosure”, the more generally used term in accounting. Willmott (1990:315) takes a similar view and 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 resources.
3.2.4 Accounting as descriptor of current economic reality

The “historical record” image of accounting has been criticised on the grounds that historical costs are not necessarily reflective of economic reality. This criticism has led to the image of accounting as “descriptor of current economic reality”. This image was initiated by economists, lawyers and accountants and emphasised the measuring of true income - the change in the wealth of a firm over a period of time (Belkaoui & Jones, 1996:69; Davis et al., 1982:310; Laughlin & Lowe, 1990:18). Current and future prices are considered to reflect economic reality more accurately than historical prices. The viewpoint of Gouws (1997:66) that accountants observe realities and assign meaning to what is going on in an entity, corresponds with the image of accounting as “a descriptor of current economic reality”.

3.2.5 Accounting as a commodity

A fifth image depicts accounting information as a commodity (Davis et al., 1982:312; Laughlin & Lowe, 1990:19). Because accounting information has an impact on the welfare of various groups in society, there is a demand for this type of specialised information (Belkaoui & Jones, 1996:69). Therefore, the role of accounting information is investigated in terms of supply and demand analyses, information economics and agency theory.

3.2.6 Accounting as an information system

Gouws and Lucouw (1999:101) contend that accounting can easily be analysed as an information system, a sixth “image” of accounting. According to Davis et al. (1982:311), this image currently dominates accounting thought and research. Accounting has all the attributes of a system: input of raw financial data, processing of data and output of financial information in the form of financial reports (Glahtier & Underdown, 1995:11-12). This image of accounting is based on decision needs or wants. In other words, the accounting information system should be designed to accommodate the decision needs of its users (Laughlin & Lowe, 1990:18).
Gouws (1997:62-63) identifies seven needs, which are central to an understanding of accounting:

- the need to *record* in order to report;
- the need to *audit* in order to trust;
- the need to *analyse* in order to assimilate;
- the need to *relate* in order to synthetise;
- the need to *compare* in order to discriminate;
- the need to *decide* in order to allocate resources; and
- the need to *respond* in order to create change.

Note that these needs are not only the needs of the external users of accounting information, but also the needs inherent in the design of the accounting information system itself. According to Gouws (1997:63), the role of the accountant is to bridge the knowledge gap between the entity (its accounting system) and the users (their needs). Unfortunately, accountants fail to do this, as they are unable to take accounting further than the financial and other statements. What generally happens is that disclosure is seen as communication. However, disclosure is a one-way process, while communication is ideally a two-way process.

Various stakeholders use accounting information to make decisions about the allocation of scarce resources (Belkaoui & Jones, 1996:29; Glautier & Underdown, 1995:18; Lehman, 1992:21). Because the accounting information system operates in a market economy, stakeholders are free to allocate their scarce resources between competing ends. Therefore, the objective of accounting as information system is to enable stakeholders to make optimal decisions. This objective, commonly referred to as decision-usefulness, has received much attention in accounting literature during the past four decades (Gouws & Lucouw, 1999:101). Prior to this, the objective of stewardship or accountability was dominant.
3.3 Accountability (stewardship) as objective of accounting

Financial disclosure to owners and to the public has developed since the mid-nineteenth century in the context of stewardship (Lehman, 1992:18; Puxty, 1990:350). The concept of stewardship can be explained in terms of agency theory. According to Wolk et al. (2001:45), agency theory is based on two main assumptions, namely:

- that the firm is the locus or nexus, or intersection point of various contractual-type (or agency) relationships among management, owners, creditors and government; and
- that individuals act in their own self-interest, which in many instances, is in conflict with the firm’s best interests.

Another way to describe agency theory is that it seeks to understand and predict the behaviour of parties involved in agency relationships, and how each of these parties maximise their own utility (Reiter, 1997:302; Wolk et al., 2001:100). 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).

The agency relationship is governed by an implicit or explicit contract. This contract is needed to resolve two problems that can occur in agency relationships. The first problem is known as the agency problem, arising 1) when the goals of the principal and agent are in conflict, and 2) because it is difficult and expensive for the principal to establish whether the agent is behaving appropriately. The second problem is known as the problem of risk sharing. This occurs when the principal and agent have different risk preferences, and as a result, favours different courses of action (Eisenhardt, 1989:58). The focus of agency theory is thus on establishing the most efficient contract, considering, among other things, the risk preferences of the contracting parties.

The implication of agency theory is that the principal needs to invest in information systems in order to monitor agent behaviour and curb opportunism (Eisenhardt, 1989:64). One such an information system is accounting. 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 also known as stewardship, or accountability by managers to the owners of the firm.

The evolution of corporate forms and structures has led to a separation between owners and managers. Therefore, today’s managers are accountable to absentee owners in terms of how they have utilised the economic resources entrusted to them (Kam, 1990:48;159). It is important to note, though, that agency theory is not only applicable to the contractual relationships between managers and shareholders or investors, but also to explicit or implicit contractual relationships involving other stakeholders such as creditors and employees.

The accountability objective is derived from the rights-based philosophy of individual autonomy (Stanton, 1997:684-5). Accountability is thus concerned with the interests of individuals, and specifically the right to receive information from a reporting entity. Such a right could be legal or moral. Legal rights to information are mostly limited to shareholders, while other stakeholders can only claim a moral right to information.

Gray (1992:402) argues that society at large has a right to information, based on the social contract that exists between a corporation and society. In other words, corporations should be held accountable in terms of their policies that affect non-shareholder groups, as well as for their compliance with the law and other regulations. However, Stanton (1997:686) warns that whether these rights to information will be upheld by the reporting entity, will depend on the political philosophy held by those able to enforce or defend rights.
3.4 Decision-usefulness as objective of accounting

Gouws (1997:66) observes that the objective of financial reporting has moved from the traditional narrow goal of stewardship to a much wider role of providing information to heterogeneous users for decision-making purposes. But Gouws (1997:68) also notes that the decision-usefulness objective has not totally replaced the stewardship objective, but rather encompasses it. When Wolk et al. (2001:3) define financial accounting, they 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, while Kam (1990:48) claims that accounting for decision-making begins with the stewardship function. In other words, the objective of accounting is acknowledged as being two-fold.

According to Wolk et al. (2001:170) the issue of user needs and objectives started to gain prominence in accounting research during the late 1960s. The first document to recognise the decision-usefulness objective was APB Statement No.4. This document was published by the Accounting Principles Board (APB) 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. Wolk et al. (2001:189) distinguish between a decision-model orientation and a decision-maker orientation to the decision-usefulness objective.

3.4.1 The decision-model approach

The decision-model approach to accounting research focuses on what information is needed to make certain decisions. It is important to note that this approach does not emphasise the information needs of users, but rather the information that is needed for particular decisions (Kam 1990:48). The rationale behind this approach is that users might not know how to use the information and need to be taught. Wolk et al. (2001:41) make it clear that this is a top-down approach, where the firm (or the accountants
employed by the firm) decides what decisions users need to take and what information is needed for these decisions.

The decision-model approach distinguishes between two major types of decisions that users need to make: 1) predicting future cash flows and 2) analysing the stewardship (that is the efficiency and effectiveness) of management (Wolk et al., 2001:43). To aid these decisions, formal investment decision models, such as discounted cash flow, capital budgeting and linear programming are often used. Belkaoui and Jones (1996:610) state that the information requirements for each of these models are well specified. Kam (1990:48) observes that accounting information is used as input data for these models.

3.4.2 The decision-maker orientation
The decision-maker orientation (also known as behavioural accounting research) investigates how users of accounting information make decisions, what information they need and how the information is selected and processed. The main assumption of this orientation is that information that is desired must be provided (Belkaoui & Jones, 1996:614; Wolk et al., 2001:44;191). In contrast to the decision-model orientation, the decision-maker orientation can be seen as a “bottom-up” approach and addresses the aspects ignored by the former.

3.4.3 Criticism against the decision-usefulness objective
There are certain problems associated with the decision-usefulness approach. The most prevalent one is that of user diversity. The principal 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 data-expansion is not necessarily the solution, as the ability of users to absorb and process additional information might be limited (Wolk et al., 2001:191). It is stated in the Trueblood Committee Report (also
known as the “Objectives of Financial Statements”, published by the American Institute of Certified Public Accountants [AICPA] in 1973) 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.

In contrast to the accountability objective, decision-usefulness is based on the utilitarian philosophy, which concerns the interests of society as a whole (Stanton, 1997:689). Utilitarianism is based on the principle that the rightness or value of an action should be judged by its consequences. Therefore, a right to corporate financial information will be justified if it results in an increase in welfare for society as a whole. The ultimate goal is the efficient allocation of resources.

In Section 3.4 it has been noted that the objective of decision-usefulness has encompassed, rather than replaced, the traditional narrow objective of stewardship or accountability. In other words, the objective of accounting is acknowledged as being two-fold. However, the philosophies underlying accountability and decision-usefulness seem contradictory. This conflict is further highlighted when one considers the ethics of care versus the ethics of rights.

3.5 Accounting and the ethics of care
According to Reiter (1997:300), the ethics of care has developed in a moral/psychological setting. It is based on the idea that women’s responses to moral issues differ from those of men. While male responses are typically characterised by an orientation towards autonomy, objectivity and adherence to universal principles, female responses are more contextual in nature. The typical male responses are labelled as the ethics of rights, while the typical female responses are labelled as the ethics of care.
The ethics of rights has dominated Western thought. Consequently the ethics of care has developed as a feminist critique in an attempt to rebalance this thought structure. The ethics of care concentrates on responsibility and relationships, in contrast to the ethics of rights, which focuses on rules and respect for the rights of others (Reiter, 1997:299; 301). Agency theory, which is based on a contract governing and protecting the rights of the contracting parties, is set within the ethics of rights.

When the ethics of rights and ethics of care are applied to accounting, it becomes clear that the objective of accountability relies on the ethics of rights approach of detailed, if somewhat arbitrary, rules of fair external reporting. The ethics of care, on the other hand, is reflected in the decision-usefulness objective, which emphasises the importance of understanding users of financial information, their unique circumstances and needs and responding to these needs (Reiter, 1997:302-304). The acknowledgment and effective management of relationships is at the centre of the ethics of care.

The theme of relationship management is important for this study. In Chapter 4, several theoretical perspectives, closely related to relationship management, are used to justify the need for an inclusive approach to financial communication. It is important to note though, that the ethics of rights and accountability objective are nevertheless acknowledged as important components of financial communication.

According to Stanton (1997:691) there is currently no generally acceptable method of reconciling the ethics or rights and ethics of care perspectives. There is a body of accounting literature that suggests the adoption of a rights-based conceptual framework for accounting. There is, however, also a body of literature concerned with the role of accounting in society, referred to as critical accounting.
3.6 Critical accounting

According to Gouws (1999:15) accounting is a social science that mimics facts and events. It is also not an exact science, as many would argue, based on universal truths or general laws. Rather, Gouws contends that accounting concepts are formulated against the backdrop of the value system of the society in which they operate. Wolk et al. (2001:1) concur by stating that although accounting is frequently viewed as a very cold, precise and analytical discipline with clear cut answers, every accounting construct has a “social reality”.

Critical accounting is especially concerned with social reality and the role of accounting in society. Lehman (1992:17) poses the question whether the accounting profession should actively pursue equity and social welfare, or whether the role of accounting is to achieve efficiency, with equity and social welfare as side effects. Wolk et al. (2001:48) are of the opinion that accounting plays a central role in adjudicating conflicts between the corporation and social constituencies such as employees, consumers and the general public.

Tony Tinker, a prominent academic in the field of accounting, is well known for his views on the role of accounting in society. His book, Paper Prophets, is filled with vivid descriptions of the role of accounting in society. The following is one of these descriptions:

Members of a society are interconnected through their economic and social interdependencies: employees to investors to consumers to taxpayers to mothers to welfare recipients to students to insomniacs. Accounting information is not merely a manifestation of this myriad of interdependencies; it is a social scheme for adjudicating these relationships. We are all costs and revenues to each other; everyone is potentially a benefactor and a victim in the accounting nexus of social decisions (Tinker, 1985:xx).
According to Tinker (1985:9;81;84), the role of accounting is to help with the allocation of resources and at the same time, determines the distribution of income and wealth. But, in a capitalist economy, this distribution of income is usually not equal. Therefore accounting often has to arbitrate in or resolve social conflict over the production and distribution of income and wealth. Lehman (1992:1) shares this perspective and states that accounting practice has always been afflicted by financial controversies.

Tinker warns that accountants should not be seen as “harmless bookkeepers, but as arbiters in social conflict, as architects of unequal exchanges, as instruments of alienation, and as accomplices in the expropriation of the life experiences of others” (1985:xvi). In other words, accounting information has the potential to create distributional instabilities. Those who have access to and/or are able to interpret and use accounting information have the power to make decisions to their own advantage, and possibly to the detriment of others.

Tinker’s arguments might seem extreme, but there are several authors holding similar, although not as dramatically stated, views. Willmott (1990:325) acknowledges Tinker’s views and refers to the historical role of the accounting profession in defending capitalism and the structures of social relations within which accounting is constituted and practised. Cooper (in Macintosh, 1990:153-154) points out that the ideology behind current accounting theories and accounting information legitimises the way in which funds are distributed by organisations, supports the currently powerful groups in society and discourages enquiry into the social desirability of society as we know it.

Hopper and Cooper (1990:5) observe the trend in accounting research to question the taken-for-granted in accounting thought and practice, and the recognition of accounting’s role in prevailing structures of power and domination. Although they acknowledge the importance of conventional research that concentrates on the technical and procedural aspects of accounting, they state that analyses of accounting’s role and position in society are also important. Macintosh (1990:154) remarks that
research into the ideological function of accounting could also help with the design of new accounting systems which would meet the needs of an entire society.

According to Laughlin and Lowe (1990:37), the designers of accounting systems (accountants by implication) should critically analyse the current state of the organisation and society of which they are part and identify the necessary changes that would aid development and emancipation of the social world. These designers are free to change the design of the accounting system. In the process, they shape the users of the system’s views of what is important (set the agenda) and determine how institutions function (Macintosh, 1990:153). It is against this background that certain accounting scholars began to explore the concept of corporate social accounting.

3.7 Corporate social accounting

Jones (1990:272) reports that interest in new forms of corporate reporting, that 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 (APB) and Financial Accounting Standards Board (FASB) ignored society as a user of accounting information. In 1977 a special committee of the American Accounting Association (AAA) 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. Bailey (1990:193) states that accounting should expand its horizons by paying more attention to society in general, rather than playing a larger and larger role within the business firm itself. 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). It can therefore be argued that corporate social accounting is based on the ethics of care, as described in Section 3.5.

But what is the motivation behind corporate social accounting? Jones (1990:273) identifies three views that express the need for new forms of accounting: a moral imperative, external pressure and internal change.

Advocates of the moral imperative view are of the opinion that businesses are not sufficiently aware of, and unwilling to be held accountable for, the social consequences of their activities. They propose that accountants should take the lead in changing the views of management and incorporating a more socially responsible framework within which the firm should operate (Jones 1990:273). In Section 3.3.1, reference was made to the rights-based philosophy underlying the accountability objective of accounting. It was also mentioned that rights could be legal or moral. Stanton (1997:686) suggests that the political philosophy of those in power will determine whether moral rights will be upheld. It is therefore open to debate whether accountants will be able, or willing, to persuade corporate management to consider the idea of corporate social accounting.

According to the external pressure view, business managers are well aware of an already high level of social pressure, demanding a higher level of social responsiveness from firms (Jones, 1990:273). Stakeholders are pressuring business enterprises to report to what extent their interests have been protected (Imam, 2000:133). Proponents of this view believe that any social institution, business included, operates in society via an expressed or implied social contract. This contract stipulates that the firm should deliver economically, socially and politically desirable benefits to those groups in society from which it derives its power and infrastructure. According to Imam (2000:134) and
Jones (1990:273), social accounting helps to assess how well a firm is fulfilling this social contract.

The third argument in favour of corporate social accounting, *internal change*, refers to changes that have taken place within the firm itself, which demand a new approach to accounting. The main change that has taken place is the decline in the power of ownership and therefore, the reduced importance of profit as a corporate goal. Profitability is now seen as only one of many corporate goals (Jones, 1990:274). Traditionally, the role of accounting was seen as presenting information to the proprietors (shareholders and other investors) to show how their funds have been used to generate profit. In view of this third argument in favour of corporate social accounting, this role should be expanded in order to reflect a firm's performance in areas other than profitability.

In general, criticism against corporate social accounting has been based on the technical difficulties involved in developing social reports and the question whether accountants have the relevant skills to prepare such reports (Jones, 1990: 274; 290). Kam (1990:51) remarks that it is extremely difficult to identify a given activity as a social benefit or cost, and even more difficult to quantify these benefits and costs. He adds, though, that it is not necessary to quantify these benefits and costs, as they can be described in words or other qualitative terms.

In this chapter so far, the accounting discipline has been discussed in terms of various images, objectives, philosophies and roles. The question that now arises is: is the accounting profession, and more specifically the accounting professional, ready and equipped for the opportunities and challenges described previously?

In Chapter 2, empirical evidence suggests that in most cases, the financial executive and his or her department managed and conducted investor relations programmes (Marston, 1996; McGrath, 1974; Petersen & Martin, 1994). This is significant, especially
when one considers the fact that investor relations was traditionally seen as a public relations function. Indeed, the public relations literature generally still considers investor relations as a public relations function. The section that follows investigates the extent to which the accounting profession is expanding into other disciplines and the concomitant implications for accounting education.

3.8 The expanding role of the accounting profession

A dramatic shift in expectations of the accounting profession has occurred during the last 20 years. In response, the accounting profession is expanding, assuming a broader role within organisations and within society (Bedford & Shenkir, 1987:85; Williams, 1993:76). The following quote provides a vivid description of this phenomenon:

The Big Eight [accounting firms] are, among other things, auditors, accountants, executive headhunters, merger-makers, tax specialists, consultants, attorneys, lobbyists, expert witnesses, financial planners, actuaries, engineers. They do everything from planning urban medical centres to designing Third World transportation systems. Name a white-collar service and chances are that the Big Eight provide it or will find a way to do so (Stevens in Hines, 1987:82).

Atkinson (2002:213) reports that in 2000 these firms were making 40% of their revenue from consulting, in contrast to 21.6% in 1989. This dramatic shift can, in part be attributed to the fact that computer technology is making auditing services less valuable. Accounting firms are therefore forced to seek new sources of revenue. According to Bedford and Shenkir (1987:90), the expansion of the accounting profession is characterised by two main aspects:

- Accounting services are becoming broader in scope, which in turn, require an extremely high level of professional competence from accountants.
- Various types of decisions and decision makers require, and are provided with, accounting services that need to be more creative and innovative than traditional financial reporting processes.
But it is not only accounting firms that have to deal with new opportunities and expectations. The Chief Financial Officers (CFOs) of companies are also facing new challenges.

3.8.1 The expanding role of the Chief Financial Officer (CFO)

Traditionally, the role of the accountant in a company was seen as keeping record of the flow of money in and out of the company, interpreting this information and reporting it to the Board of Directors, senior management and the investment community. Few, if any, Chief Financial Officers (CFOs) assumed any responsibilities outside purely financial domains such as tax, auditing, financial reporting and investor relations (Favaro, 2001:4,6). The CFO’s main responsibility was providing information about what had happened in the past.

This scenario, however, is rapidly changing. The CFO no longer only oversees accounting and finance functions within the company, but also advises the CEO on the most important decisions that need to be taken (Favaro, 2001:8). A whole new job description for CFOs has evolved. According to Favaro (2001:4,5), CFOs who stand a good chance of being promoted to the position of Chief Executive Officer (CEO), are those who are not only financial specialists, but play dynamic roles in four crucial areas: strategic planning, information management, investor relations and organisational leadership.

As strategist, the CFO needs a thorough understanding of the economics of the business and how this can be linked to strategic opportunities. Information management encompasses the utilisation of information technology to create a fact base that provides detailed, real-time information essential to strategy development and implementation. As leader, the CFO is expected to contribute to and improve the quality of strategic decision-making, take the lead in change management and develop and maintain strong relationships with fellow executives (Favaro, 2001:5).
As communicator (with specific reference to investor relations), the CFO should be able to articulate the company’s current financial and strategic position and future direction and decide when and how to communicate this information to investors, the media and the community. Furthermore, the CFO should understand the implications of these announcements for all the major stakeholders of the company, not only the shareholders. In other words, the CFO should also possess public relations knowledge and skills (Favaro, 2001:5;7). This seems a lot to expect, but even professional accounting bodies acknowledge that today’s professional accountants need more than accounting skills and knowledge.

According to the Education Committee of the International Federation of Accountants (IFAC), accountants need skills in order to be entrepreneurs, financial analysts, sales persons, good communicators, negotiators, public relations specialists and managers (IFAC, 1996 Par 8). These skills include communication, negotiation, intellectual, interpersonal, accounting and personal skills. Donovan (1995:7) suggests that communication skills are important in the new millennium for the following reasons:

- the business world will become more and more interdependent;
- people from different backgrounds and disciplines within the organisation will become more interdependent in order to complete whole tasks; and
- there will be a greater number of users of accounting information to which the accountant will have to respond.

The question is: are accountants equipped, especially in terms of education, to fulfil their expanded role in organisations? According to Favaro (2001:8), accountants will need extensive educational as well as professional experience before they would be able to take up the position of CFO. According to Bedford and Shenkir (1987:91) the accounting profession is ideally suited to provide in the ever increasing demand for higher quality information, but add that this will only be possible if a reorientation of accounting education takes place to better equip its members for their expanded role.
3.8.2 Implications for accounting education

The expanding role of the accounting profession has led to the question whether the status quo in accounting education sufficiently equips accountants for this role. In order to investigate this issue, the American Accounting Association (AAA) appointed a committee in the mid 1980s. The committee compiled a report entitled “Future Accounting Education: Preparing for the Expanding Profession”, also known as the Bedford Report (Donovan, 1995:1).

In general, the Bedford report concludes that the current state of accounting education does not meet these new expectations and should therefore be reassessed and redirected (Bedford & Shenkir, 1987:85). It recommends that educators should approach accounting as an information development and distribution function with the focus on information identification, measurement, analysis and communication.

Considering the growing role of information in society, accountants should be prepared for the broadening of information use. Accountants need to know how to design and implement information systems in order to meet the needs of various decision makers (Bedford & Shenkir, 1987:88;90). According to Donovan (1995:11), the Education Committee of the International Federation of Accountants (IFAC) made similar suggestions.

The Bedford Report also states that accounting education should be extended beyond technical skills. Accounting students' capabilities in terms of interaction with others, logical as well as creative thinking and communication should also be enhanced (Bedford & Shenkir, 1987:90). The Accounting Education Change Commission (1990:307) and a 1996 IFAC International Education Guideline (IFAC, 1996 par 33) suggest similar actions. Organisational and business education will equip accounting students with knowledge of the environments in which they operate, macro-and micro-economics, the application of statistics to business problems, interpersonal and group dynamics in organisations, marketing and international trade and finance, which in turn,
will aid them in the accomplishment of strategic objectives. During the assessment of their professional competence, students should be able to demonstrate that they have a sound technical knowledge of the subjects included in the accounting curriculum. However, as with the Bedford Report, it is also recommended that students should be assessed on their ability to communicate effectively with users of financial information (IFAC, 1996:48).

One central theme in these reports and guidelines is the need to improve communication skills of accountants, especially their interpersonal and business communication skills. According to Williams (1993:80), accounting curricula have traditionally paid little attention to these skills. The result is that accountants are often surprised to find that communication skills play such a fundamental role in their work and future career prospects. The IFAC International Education Guideline (1996 par 19) lists various components of communication skills, such as the ability to present, discuss and defend views, listening and reading skills, and the ability to locate, organise, report and use information from various sources. According to Donovan (1995:7), all these skills must be taught.

Figuratively speaking, the accountant is expected to be Superman. This expectation is not only extremely demanding but also totally unnecessary. Why is it necessary to train accountants to be experts in communication and public relations, when there is an oversupply of people specifically trained in these fields?

The solution seems deceptively simple: combine the expertise of the accountant and the public relations practitioner. However, in an earlier study, the author found that the public relations practitioners surveyed more readily accepted the idea of co-operation between the two disciplines, than the accountants (Schoonraad, 1998). The reason for this might be that accounting is recognised as an established profession, while public relations is still struggling to gain that recognition. A telling example of this phenomenon is the presence of accountants, and the absence of public relations
practitioners, in corporate boardrooms. However, despite the stronghold that the accounting profession has on financial communication, it has several shortcomings.

3.9 Shortcomings of the accounting approach to financial communication

According to Gouws and Terblanché (1998:91), new definitions of accounting consider it to be a communication discipline. Gouws (1997:62), to the contrary, remarks that a traditional shortcoming of accountants is that they are unable to take information further than the financial and other statements. In other words, accountants consider disclosure to be a form of 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. 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. In Chapter 2 it was also noted that investor relations efforts are predominantly focused on the financial community, ignoring other stakeholders' needs. This is not surprising in view of the fact that the accounting profession currently dominates investor relations practice.

A serious 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. The historical reporting model may have been appropriate for the industrial economy, but fails to capture wealth creation in the current information and knowledge-based economy. Wright (2001:17) uses a striking analogy: accounting must change from a succession of snapshots taken once a month, quarter or year, to a movie
that continuously changes as the circumstances change. In other words, accounting should become a dynamic process.

A closely related problem is the fact that the accounting profession continuously inundates itself with new accounting standards (Healy & Palepu, 1993:1). This proves to be burdensome and prevents accounting to become the dynamic process it needs to be. In the process, accounting is also becoming increasingly complicated. This, in turn, has the side effect that accounting information is becoming less accessible and therefore even narrower in focus.

Finally, expectations of the accounting profession and professional are broadening all the time. The Bedford Committee, among others, found that current accounting education is not adequate to meet the requirements of an expanding profession (Bedford & Shenkir, 1987:85). This places immense pressure on the profession as well as on accounting educators.

### 3.10 Conclusion

There is no doubt that the accounting discipline has far-reaching consequences for society as a whole. It is furthermore backed by a powerful and influential profession, which is assuming broader roles and responsibilities every day.

Accounting’s “claim to fame” lies primarily in the fact that it has developed a system that captures people’s and companies’ decisions regarding the allocation of resources in a concrete way. In other words, accounting provides a record of what has happened in the past in order to assist people to anticipate the future. However, the “historical record” image has been criticised for its lack of relevance in today’s information and knowledge-based economy.
Accounting has also been described as an information system, which developed in reaction to users’ needs. This image of accounting might lead to the impression that accounting creates information that is useful to various groups of users. This is not accurate - the accounting information system only serves as an intermediary that observes information and puts it into a certain format. This observation process is also extremely selective. Information regarding the allocation of financial and tangible resources is observed with meticulous care. However, information about the allocation of non-financial and intangible resources such as time and knowledge has been ignored to a large extent. The discipline has only recently begun to pay attention to intangible resources such as intellectual capital.

The objective of accounting is two-fold. First, it fulfils a stewardship role by reporting how a firm’s managers (the agents) have utilised the resources entrusted to them by investors (the principals). Note that the concept investment is understood here in the narrow sense of purely financial or economic investment. It will be argued in Chapter 4 that investment can, and should, be understood in a broader sense.

The second objective of accounting, which encapsulates the first, is that of decision-usefulness. Accounting facilitates various users’ decisions regarding the allocation of their resources. It has been noted by critical accounting scholars that these allocations are not necessarily equitable and that those who can access and interpret accounting information are in a very powerful position. The corporate social accounting movement is an attempt to hold these powerful parties (mostly firms) accountable for their actions that have an impact on society and the environment.

It has been noted that the objective of decision-usefulness is based on the ethics of care, a utilitarian philosophy. The ethics of care emphasise the importance of responsibility and relationships. This theme is taken further in Chapter 4. Many public relations scholars have recently begun to explore the application of relationship management as a general theory of public relations.
In Chapter 4 it will be argued that a broader, inclusive approach to financial communication is needed. This will be justified by referring to the shortcomings of both the investor relations and accounting approaches to financial communication. The argument will be contextualised within the themes of corporate governance, corporate social responsibility, stakeholder management and relationship management.

The conceptualisation of an inclusive approach to financial communication holds implications for the management and organisation thereof. It is suggested in Chapter 5 that the turf war between public relations and accounting is counterproductive and that financial communication should rather be seen as an interface (or grey area) between the disciplines. This necessitates a fully integrated approach to the management and organisation of financial communication.
Research objective:

3. To provide a theoretical justification for an inclusive (stakeholder) approach to financial communication.
CHAPTER 4
Theoretical justification for an inclusive approach to financial communication

... the wealth-creating role of business arises directly out of integrating stakeholders into a productive whole - “a corporate community.”

- Halal (2000:10)

4.1 Introduction
In Chapter 2 the current approach to financial communication was discussed from an investor relations perspective. The main conclusion was that the accounting profession has a stronghold on financial communication. In Chapter 3, the accounting approach to financial communication was investigated. Shortcomings of both these approaches were also identified. The main shortcoming of the investor relations approach is that there is a lack of integration and co-ordination in investor relations efforts. A second shortcoming is that these efforts are in most cases only directed at the financial community. The accounting approach to financial communication is also characterised by this narrow focus.

The objective of this chapter is to provide theoretical justification for a broader focus in financial communication efforts, in order to include stakeholders, other than members of the financial community. In other words, it will be argued that an inclusive approach is needed. The importance of an inclusive approach is one of the main themes in the 2002 King Report on Corporate Governance. The concept of corporate governance also encompasses the themes of corporate social responsibility and stakeholder relationships.
The corporate social responsibility literature emphasises accountability in terms of financial performance, as well as social and environmental performance: the so-called triple bottom line. There is also recognition that corporate social responsibility is a function of an organisation’s external relationships. This establishes the link between corporate social responsibility and public relations.

The concept of stakeholder relationships is central to corporate governance, as well as corporate social responsibility. 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. The emphasis is rather on collaborative stakeholder relationships.

The emphasis on relationships is also evident in recent public relations literature. Most research efforts in this field have focused on defining the concept “relationship” in a meaningful and measurable way. The model of Broom, Casey and Ritchey (1997) and an adapted version by Grunig and Huang (2000) represent important progress in this regard.

The concepts of corporate governance, corporate social responsibility, stakeholder relationships and public relations as relationship management are interrelated. It is therefore impossible to discuss one, without referring to the other. However, good corporate governance lies at the bottom of social responsibility and positive relationships with stakeholders or publics. It is therefore a logical starting point for the discussions in this chapter.

4.2 Corporate governance

During the past ten to fifteen years the concept of corporate governance has received increased attention and is now a mainstream topic in financial and management literature. The Enron debacle, and other corporate scandals that followed, led to the questioning of “generally accepted” corporate conduct and elevated corporate
governance to the top of the corporate agenda.

The growth of the corporate governance “movement” has been characterised by numerous committees and reports, of which the 1987 Treadway Commission Report in the USA was the first (Vinten, 2001:4; 7). The United Kingdom followed suit and the 1992 Cadbury Report is seen as one of the most influential in the field of corporate governance. Various “sons of Cadbury” followed (e.g. the Rutteman, Greenbury, Hampel and Turnbull reports). In South Africa, the King Report of Corporate Governance was published in 1994. A revised and expanded edition (King II) was published in 2002. The fact that much time and effort have been dedicated to compiling these reports is an indication of the importance of corporate governance. But what is meant by “corporate governance”?

4.2.1 Defining corporate governance

Cassidy (2003:33) defines corporate governance as “… the creation and implementation of processes adopted by a properly authorised and constituted board seeking to optimise the return to shareholders whilst satisfying the legitimate expectations of stakeholders …”. He adds that communicating the company’s plans and actions to stakeholders (as far as commercial sensitivity allows), as well as creating opportunities for stakeholders to express their views, are part of the process.

Naidoo (2002:1) emphasises that corporate governance is essentially about responsible leadership and management of companies. Corporate governance therefore encompasses the creation and monitoring of systems within the company to ensure:

- a balanced exercise of power;
- compliance with legal and regulatory obligations;
- identification and management of risks to the sustainability of the company’s business; and
- accountability to the broader society in which it operates.
The needs and expectations of shareholders as well as other stakeholders, is a theme that underlies the definitions of corporate governance offered by both Cassidy (2002:33) and Naidoo (2002:2). The latter, for example, states that corporate governance seeks to align the social and economic goals of individuals, the company and broader society as closely as possible. According to Halal (2000:10), corporate governance has evolved from the traditional “profit-centred model” to the “social responsibility model”. Frankental (2001:18-19), on the other hand, contends that the current governance of companies reflects the interests of shareholders, but not of other stakeholders. He uses the example of company law in the United Kingdom, which offers legal protection for shareholders, but not for other stakeholder groups such as consumers, employees or communities. The shareholder-versus-stakeholder-debate is a contentious issue in stakeholder theory and is discussed in more depth in Section 4.3.3.

In South Africa, compliance with the terms of the 2002 King Report is a requirement for companies listed on the Johannesburg Stock Exchange (JSE). However, Naidoo (2002:157) notes that these terms are only a set of principles, and do not dictate a mandatory course of action. This might be seen as an inherent weakness of the corporate governance movement. Cassidy (2003:32) and Naidoo (2002:8) refer to the phenomenon of “box-ticking” to illustrate the over-emphasis on compliance with codes of corporate governance. Some companies see corporate governance as being too prescriptive and a source of irritation and anxiety. Therefore, corporate governance is reduced to a cosmetic exercise of compliance with principles, without bringing about an inherent change in the ethical practices of companies. What then, constitutes good corporate governance?

### 4.2.2 Characteristics of good corporate governance

The 2002 King Report lists seven characteristics of good corporate governance (King Committee on Corporate Governance, 2002:11-12), namely discipline, transparency, independence, accountability, responsibility, fairness and social responsibility. Four of these characteristics have a direct bearing on this study.
Transparency is described as a measure of management’s ability to make information available that is candid, accurate and timely, so that investors can make informed decisions (King Committee on Corporate Governance, 2002:11). This relates to the decision-usefulness objective of accounting, as discussed in Chapter 3. Accountability, which has also been discussed in Chapter 3, requires managers to account for their decisions and actions. Due to the separation of ownership and control in the modern corporation, principals need information systems, such as accounting, to monitor agents’ behaviour.

The King II rejects the notion that companies are accountable to all stakeholder groups (King Committee on Corporate Governance, 2002:7), but nevertheless calls for an inclusive approach. Thus, fairness in corporate governance requires that the interests of stakeholder groups, identified by the company as important and relevant to its business, should be taken into account. Naidoo (2002:130) also considers defining a company’s stakeholders and maintaining a balance between their interests and those of the company, integral to good corporate governance.

A fourth characteristic of good corporate governance is social responsibility. A company is considered as a good corporate citizen if it is non-discriminatory, non-exploitative and environmentally responsible (King Committee on Corporate Governance, 2002:12). Corporate social responsibility is discussed in more detail in Section 4.3.

4.2.3 Major themes in corporate governance
The 1994 King Report on Corporate Governance has been one of the first of its kind, worldwide, to advocate an integrated approach to corporate governance that goes beyond financial and regulatory aspects. An integrated approach to corporate governance is understood as considering the interests of a wide range of stakeholders, by adhering to principles of good financial, social and environmental practice - the “triple bottom line”. This term is often used in the context of corporate social responsibility and
receives even more attention in the 2002 King Report (King Committee on Corporate Governance, 2002:7; Naidoo, 2002:125).

The King II also acknowledges that corporate governance should reflect the value system of the society in which it operates (Naidoo, 2002:12-13). A hallmark of the African worldview is ubuntu, or humanity. Ubuntu emphasises, amongst other things, co-existence and co-operation. The individual is dependent on his or her relationships with others. It is argued in the King II that ubuntu can also be extended to the corporate world.

In conclusion, three main themes can be identified in the foregoing discussion of corporate governance. The first theme is corporate social responsibility. The second theme centres on an acknowledgement (although a qualified one) of the stakeholder concept. The third theme emphasises the importance of relationships with stakeholders. Although these themes are interrelated, each provides a particular angle to the justification of an inclusive approach to financial communication. In the section that follows, definitions of corporate social responsibility, as well as the rationale behind it, are investigated.

4.3 Corporate social responsibility

Corporate social responsibility is not a new concept. According to Clark (2000:366) the idea originated around the turn of the 20th century. However, researchers only really started to focus their efforts on the topic during the 1960s and 1970s. Today, the importance of corporate social responsibility is clear. What is not as clear, is what is understood by corporate social responsibility.

4.3.1 Defining corporate social responsibility

According to Havenga (1997:135), corporate social responsibility refers to “… behaviour which 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 …”. One way this definition
can be interpreted is that a trade-off must be made between profit and social responsibility. But Havenga also adds that the duty of the Board of Directors is to reconcile different interests, of which profit is the main, but not the only one.

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. It is an indisputable fact that companies are in business to generate profits. This sentiment is also expressed in the 2002 King Report on Corporate Governance. According to the report, entrepreneurship and enterprise are still important drivers of business (King Committee on Corporate Governance, 2002:8). It is therefore important to maintain satisfactory levels of profit. Otherwise investors, and even stakeholders, will look for alternative opportunities. Thus, corporate social responsibility requires that companies integrate social and environmental strategies into their core business, to ensure sustainability in more than financial terms. Naidoo (2002:126-127) states that nowadays, corporate reputation is as important to a company’s share price and profitability as financial performance.

A potential danger of the emphasis on corporate social responsibility is that it can be interpreted as merely making paternalistic, charitable contributions (Clark, 2000:366). Furthermore, companies realise that there is “mileage” in linking their name to a good cause. Frankental (2001:23) warns that this is not what corporate social responsibility is about. Havenga (1997:136) and Moir (2001:17) state that corporate social responsibility covers a wide range of issues pertaining to employee relations, human rights, corporate ethics, community relations and the environment. These issues include the health and safety of employees, the removal of gender and racial discrimination, product safety, fair treatment of suppliers and environmental protection. The question that arises is: what motivates companies to pay attention to these issues?
4.3.2 The rationale behind socially responsible corporate conduct

Moir (2001:19;20) asserts that companies engage in socially responsible endeavours because society implicitly expects them to do so, based on the social contract between them. Another way to explain this is in terms of a company’s “licence to operate”. Historically, regulators issued licences for companies to be formed and operated, but this scenario has changed (King Committee on Corporate Governance, 2002:8). Although regulators still grant the initial “licence to operate”, companies must now continue to “deserve and retain”, it by operating within the norms set by society. According to Overton-De Klerk (1994:175), organisations exist only because society allows them to.

Frankental (2001:20) maintains that companies are motivated to engage in corporate social responsibility by their desire for a return in some form. Moir (2001:17) refers to the enlightened self-interest of business in this regard. The King Committee on Corporate Governance (2002:12) declares that a socially responsible company is likely to experience indirect economic benefits such as improved productivity and reputation. Moir (2001:17) adds higher levels of employee loyalty and retention and public support to the list of possible benefits.

4.3.3 Corporate social responsibility and the financial markets

The 2002 King Report (King Committee on Corporate Governance, 2002:12) refers to indirect economic benefits that companies can derive from socially responsible behaviour. However, according to Frankental (2001:19), there is no substantial evidence that any direct economic benefits follow from corporate social responsibility. The reason is that financial markets judge companies mainly according to financial indicators such as profits and earnings per share. This fixation with financial indicators of company performance has been alluded to in Chapter 2.
Frankental (2001:19) also refers to the reality that companies are driven by market forces and competitiveness pressures. If financial markets do not reward socially responsible behaviour (or conversely, penalise socially irresponsible behaviour), are the indirect economic benefits referred to previously, really enough to motivate companies to be socially responsible? Even if companies listed on the JSE have to comply with the 2002 King Report’s guidelines, these are only guidelines and not laws.

There is a way to ensure that markets reward socially responsible companies. Instead of only auditing a company’s financial performance, accounting systems should be changed in order for the company’s social and environmental performance to be audited as well (Frankental, 2001:19). In other words, companies should be audited according to the “triple bottom line”, encompassing financial, social and environmental performance.

The social component of the triple bottom line refers to values, ethics and reciprocal relationships with stakeholders (King Committee on Corporate Governance, 2002:11). The management of relationships is currently one of the major themes in public relations research, and is also one of the fundamental concepts in this study. It is also interesting to note that the King II considers financial aspects as well as non-financial ones as part of the economic component of the triple bottom line. However, reporting on non-financial aspects remains a challenge, as traditional accounting standards and rules do not make provision for it. The same applies to the environmental component of the triple bottom line, although it has received some attention from corporate social accounting scholars (see Chapter 3). According to the King II (King Committee on Corporate Governance, 2002:11), what is known as The Global Reporting Initiative, is an attempt to lay down guidelines for reporting on the triple bottom line.

If companies are formally audited according to the triple bottom line, the principles of corporate social responsibility will take root in financial markets. In fact, there is already evidence of this. Naidoo (2002:127) mentions three major indexes that track the
performance of socially responsible companies: the Dow Jones Sustainable Group Index, the FTSE4Good, and the Dow Jones Stoxx Sustainability Index listed on the European Stock Exchange. There are also a number of companies that publish annual social reports. Frankental (2001:20) remarks that, although these companies have been accused of “window dressing” or using the reports as a “PR exercise”, the fact that they have accepted a wider sense of accountability is significant.

4.3.4 The link between corporate social responsibility and public relations
Frankental (2001:22) reports that corporate social responsibility is often seen as an add-on to public relations and not something that should be embedded across the organisation. Seitel (2001:87), however, reports the opposite, namely that most firms view corporate social responsibility as a way of life. What is important is that Frankental (2001:22) recognises that corporate social responsibility is a function of a company’s external relationships. Clark (2000:376) points out that one of the similarities between public relations and corporate social responsibility is that it is the goal of both disciplines to enhance the quality of the organisation’s relationships with key stakeholder groups.

Grunig (1992b:240) identifies social responsibility as one of 12 characteristics of excellent organisations and postulates that it is the purpose of excellent public relations to balance the interests of the organisation with the interests of its publics and society. According to Grunig and Hunt (1984:48;52), public relations is the practice of social responsibility (own emphasis). They also remark that it is the publics who decide whether an organisation is behaving responsibly or not. Therefore, public relations has a dual role. First, public relations must scan the environment to establish whether publics perceive the organisation as behaving irresponsibly. Clark (2000:377) states that this role of public relations is largely unrecognised by corporate social responsibility scholars. The second role, according to Grunig and Hunt (1984:52), is to help publics understand the organisation’s behaviour. Moir (2001:19) summarises these roles by noting that corporate social responsibility is built around stakeholder analysis (understanding their aspirations and needs) and engagement (communicating and
Note that the term “stakeholder” is used in the sections about corporate governance and corporate social responsibility, but that the term “public” is used in this particular section. The distinction between “stakeholder” and “public” is a difficult one, and the public relations literature is divided on the topic. However, the content of this chapter is derived from various disciplines and a distinction between “stakeholders” and “publics” will only add complexity, rather than clarity, to the discussions. Therefore, the term “publics” will only be used in the sections in which public relations literature is reviewed.

At the end of Section 4.2.3, it has been noted that corporate governance incorporates three major themes, namely corporate social responsibility, the stakeholder concept and stakeholder relationships. Although the stakeholder concept is inherent to corporate governance and corporate social responsibility, it is supported by its own body of literature, known as stakeholder theory.

4.4 Stakeholder theory

It can be said that corporate governance, and therefore corporate social responsibility as well, rest on the idea that a company has stakeholders. Edward Freeman is generally credited for popularising the stakeholder concept. Post, Preston and Sachs (2002:6) remark that the “stakeholder model” is widely accepted as a characterisation of the contemporary business organisation. But what is a stakeholder, and what does a “stake” entail?

4.4.1 Defining the concept “stakeholder”

The concept of “stakeholders” evolved from the concept of shareholders – the owners of businesses. A “stake” refers to an interest or share in an undertaking. Shareholders are therefore also stakeholders (Carroll, 1996:72). Freeman (1984:25) defines stakeholders as any group or individual who can affect or is affected by the achievement of the firm’s objectives. In other words, stakeholders have a stake in a
company when they affect, or are affected by, the firm’s activities. Näsi, Näsi, Phillips and Zyglidopoulos (1997:302) describe the “stake” in terms of relationships, when they define stakeholders as groups or individuals that are involved in mutually dependent relationships with a firm.

According to Moir (2001:19), stakeholders can be categorised as primary or secondary stakeholders. Primary stakeholder groups are defined as those without whose continued participation the firm cannot survive. These groups include shareholders, investors, employees, customers, suppliers, governments and communities. Secondary stakeholder groups are those who influence or affect, or are influenced of affected by the firm, but are not involved in transactions with the firm. They are therefore not essential for the firm’s survival.

The 2002 King Report (King Committee on Corporate Governance, 2002:97) provides another way of classifying stakeholder groups. The first identified group is shareholders (that provide capital). The second group includes parties that contract with the firm in one of two ways: as providers of input, or as purchasers of output. These are, amongst others, customers, employees, suppliers, sub-contractors and business partners. The third group is classified as parties that are involved in a non-contractual relationship with the firm, but provides it with its “licence to operate” - civic society, local communities, non-governmental organisations (NGOs) and other special interest groups. The state as policy maker, legislator and regulator is seen as a fourth separate stakeholder group.

A similar way of classifying stakeholders is to identify the different types of linkages between an organisation and various stakeholders. Grunig and Hunt (1984:140) uses the concept of linkages to explain why Public Relations departments plan and execute government relations, community relations and investor relations programmes, to name a few. Four types of linkages are identified (Grunig & Hunt, 1984:141-142; Steyn & Puth, 2000:65). Enabling linkages are linkages with stakeholders that provide authority and resources that enable the organisation to exist. These include shareholders,
government, the Board of Directors, community leaders or donors. *Functional* linkages refer to linkages with stakeholders that either provide input (such as employees and suppliers) or use the organisation’s output (such as consumers). *Normative* linkages are connections with organisations that share similar values or face similar problems as the organisation (for example professional or industry associations). *Diffused* linkages connect the organisation with groups of individuals that are not part of any organisation (including minorities, the environment and communities).

Whichever way a company chooses to classify stakeholders, the fact is that definitions of stakeholders, such as the ones given above, allow for just about anybody to be included as a stakeholder of a company. This is one of the chief concerns highlighted in the 2002 King Report: “... to ask boards to be accountable to everyone would result in being accountable to no one” (King Committee on Corporate Governance, 2002:7). Clear guidelines are therefore necessary in order to establish whom the company must consider as stakeholders and who not.

### 4.4.2 A model of stakeholder identification

Mitchell, Agle and Wood (1997:869) developed a model of stakeholder identification and salience, based on the three concepts of power, legitimacy and urgency. In the context of stakeholder theory, *power* can be seen as the ability of one stakeholder to regulate or restrain the activities of other stakeholders on the grounds of access to material or financial resources, force, violence or symbolic resources (Mitchell *et al.*, 1997:865). In the context of financial communication, stakeholders who can access and interpret financial information, have power over those who cannot.

*Legitimacy* refers to the moral claims or rights of stakeholders and also to socially accepted and expected structures of behaviours (Mitchell *et al.*, 1997:866). Businesses operate under a mandate given by stakeholders, which may be withdrawn if they are seen not to be doing the “right things” (Woodward, Edwards & Birkin, 1996:329). Legitimacy is therefore “in the eye of the stakeholder”. The degree of *urgency* of a
stakeholder’s claim depends on two factors, namely time sensitivity and criticality (Mitchell et al., 1997:867-868).

Moir (2001:19) concludes that firms will pay most attention to legitimate stakeholder groups who possess power and urgency. However, Gamble and Kelly (not dated) remark that the set of relevant stakeholders will vary according to the circumstances of the firm and its environment. The salience of stakeholders changes, depending on their possession and levels of power, legitimacy and/or urgency (Mitchell et al., 1997:879). As a result of changes in relationships, stakeholders may choose to exit or voice their concerns, depending on the degree of loyalty towards the organisation.

Mitchell et al.’s (1997:869) model allows for the identification of a wide range of salient stakeholder groups, including shareholders. There is, however a body of literature that suggests that organisations cannot tend to the interests of shareholders and stakeholders. The debate centres on the concepts of maximisation of shareholder value versus maximisation of stakeholder value.

4.4.3 Maximisation of shareholder value as an organisation’s sole objective

In Section 4.2.1 it has been noted that corporate governance has evolved from the traditional “profit-centred model” to the “social responsibility model”. A large component of stakeholder theory deals with the question of shareholder interests versus stakeholder interests. Perspectives surrounding this debate are important when considering an inclusive approach to financial communication.

The origins of the profit-centred model can be traced back to the Industrial Age. This model is based on the presumption that capital formation is the only legitimate role of business. Businesses are seen as mere arrangements where shareholders advance capital to managers to realise specific objectives, and for which shareholders receive an ownership interest (Halal, 2000:11; Hasnas, 1998:21). Thus, organisations have obligations to shareholders that are sacrosanct and inviolable. Any action taken by
management must be justified by whether or not it enhances the wealth of the shareholders (Freeman & Reed, 1983:88; Halal, 2000:11).

It is widely recognised that Dr Albert Rappaport first created and popularised the concept of shareholder value. The sole task of management is described as maximising shareholders’ economic wealth (Goldenberg, 2000:30). However, Milton Friedman is probably better known as a result of his extreme views regarding the maximisation of shareholder value (Vinten, 2000:377). The following is one of his most famous dictums:

Few trends would so thoroughly undermine the very foundations of our free society as the acceptance of corporate officials of a social responsibility other than to make as much money for their shareholders as they possibly can (Moir, 2001:17).

Where do stakeholders such as employees, customers and others fit into the neo-classical view of a firm (maximisation of shareholder value)? According to Moir (2001:17), those who adopt this view will, at the most, accept social responsibilities in the form of provision of employment and payment of taxes. Varey and White (2000:6) and Halal (2000:11) remark that the interests of stakeholders are merely seen as a means to an end, to ultimately serve the interests of shareholders.

Although stakeholders might benefit from the profit-centred approach, their needs and interests are not really seen as part of a company’s goals. Varey and White (2000:6) conclude that, if this is the case, the interests of business are opposed to the interests of society. Emiliani (2001:618) suggests that managers who strive to maximise shareholder value, will have to make trade-offs between key stakeholders, with key accountability to one stakeholder group, the shareholders. This leads to a contentious issue in the stakeholder literature: how to balance, or make trade-offs between, stakeholder interests.
4.4.4 Balancing stakeholder interests

Proponents of the neo-classical view of the firm’s main criticism against stakeholder theory is that shareholders are portrayed as one of a number of equal constituencies, or stakeholders (PPFAS Strategy Report, not dated). Thus, the task of management is seen as balancing the conflicting claims of the various stakeholders (Freeman & Reed, 1983:89; King Committee on Corporate Governance, 2002:8; Post et al., 2002:6). This is also referred to as stakeholder symmetry (Roodt, 1996:8). According to the 2002 King Report (King Committee on Corporate Governance, 2002:99), managing this equilibrium forms an integral part of good corporate governance. However, in order to achieve and maintain this balance, trade-offs or compromises should be made between the interests of various stakeholders. This presents a major challenge to any Board of Directors.

Halal (2000:10) maintains that, while the stakeholder management concept has been widely accepted, the idea of balancing interests has been abandoned during the 1990s. There are two main reasons for this. In the first place, there is no basis for balancing or adjudicating between the conflicting claims of stakeholder groups (Vinten, 2000:378). This concern is also expressed by Havenga (1997:137). A company’s management will not be able to achieve or maintain stakeholder symmetry without clear principles for resolving the eminent conflicts. Halal (2000:10) mentions a second reason. While the profit-centred logic of business prevails, there will be no incentives for balancing stakeholder interests. Managers tend to think of stakeholders purely in terms of morality, ethics and social responsibility.

4.4.5 Towards shareholder and stakeholder collaboration

It is not only the stakeholder theory that has been criticised. Hasnas (1998:23) describes the neo-classical view of the firm (maximisation of shareholder value) as “… [a] myopic view of corporate responsibility”. Cassidy (2003:32) warns that in the pursuit of shareholder value, critical relationships with employees, customers, suppliers and the community are sacrificed and long-term shareholder value is destroyed.
There is also a growing recognition that the needs of shareholders need not be at odds with the needs of the rest of the stakeholders. Rather, organisations should strive to create combined value, by implementing strategies where shareholder value and stakeholder value are mutually reinforcing (Cleland & Bruno, 1997:27). Freeman and Liedtka (1997:287) argue that the choice between shareholders and stakeholders is a false one. The interests of shareholders and stakeholders are often aligned, rather than in conflict. This sentiment is evident in three related models: the dual-investor model, stakeholder capitalism and the corporate community model.

- **The dual-investor model**
  Schlossberger (1994:459-462) has conceptualised the dual-investor model in an attempt to circumvent the problem of balancing stakeholder interests. The dual-investor model actually rejects the idea that a company has *stakeholders*, and proposes that a company rather has two types of *investors*: shareholders and society (although society is a different type of investor). Each of these investors provides a certain type of capital. Shareholders provide *specific capital* (needed for equipment, salaries, buildings et cetera), while society provides *opportunity capital*. The latter type entails the knowledge base and infrastructure that society provides and is as important as specific capital. The company therefore has a fiduciary obligation to shareholders as well as to society.

- **Stakeholder capitalism**
  The main assumption of stakeholder capitalism, according to Freeman and Liedtka (1997:286), is that organisations are an integral part of society, rather than separate and purely economic in nature. Emiliani (2001:620) states that companies function more effectively in the socio-economic environment when stakeholders are included in decision making. Firms should therefore be reorganised so that all stakeholders (such as shareholders, customers, suppliers and employees) are able to participate in decision-making (Gamble & Kelly, not dated). One of the most important decisions that any stakeholder has to make involves the allocation of scarce
resources (financial and non-financial). Roodt (1996:8) therefore captures the essence of stakeholder capitalism by defining it as “... an integrated, inclusive approach to the optimum utilisation of all the resources of the enterprise.”

- **The corporate community model**
Halal (2000:10) notes that corporate governance has first evolved from the profit-centred model to the social responsibility model (see Section 4.2.1), and is now moving towards the corporate community model. According to Varey and White (2000:6), the profit-centred model is limited, because it does not recognise that business is both an economic and a social institution. The social responsibility model calls for accountability in terms of economic as well as social and environmental performance. Unfortunately, it is often misunderstood as corporate charity, or a “public relations exercise”.

The corporate community model overcomes the limitations of the profit-centred model. A firm is defined as a socio-economic system in which a coalition of stakeholders (investors, employees, customers, business partners and the public) collaborates to create wealth (Halal, 2000:12; Varey & White, 2000:6). It also overcomes the problem that the social responsibility model commonly encounters. Stakeholders are no longer seen as passive recipients of responsible treatment, but actively participate in the value creation processes of the firm (Halal, 2000:10).

But what will motivate corporations to adopt the corporate community model? Halal (2000:11-12) points out that an economic rationale is needed. The information age provides a powerful one - the rise of intellectual capital (knowledge). The biggest appeal of intellectual capital is that, in contrast to ordinary capital, it increases in value when it is shared. Thus, stakeholder collaboration has the potential to increase a firm’s knowledge assets. Stakeholder collaboration is therefore not so much motivated by social responsibility considerations, but by the competitive advantage a firm can gain from it. Murphy, Murphy, Woodall and O’Hare (1999:9)
note that stakeholder relationships are a company’s most valuable assets. The concept of stakeholder relationships is explored in more detail in the section that follows.

### 4.4.6 Stakeholder relationships

In 1993, the Royal Society of Arts initiated an inquiry to investigate how the company of the future will achieve sustainable success in an increasingly competitive, critical and vigilant business environment (Smith, 1997:289). One of the main conclusions was that deepened relationships with and between employees, customers, suppliers, investors and the community would enable tomorrow’s company to anticipate, innovate and adapt fast enough.

However, this emphasis on relationships is not new to stakeholder theory. Freeman (1984:25) conceptualises his stakeholder view of the firm in terms of dyadic relationships. This is similar to Ackoff’s (1994:39) systems perspective on stakeholder relationships. Ackoff explains stakeholder relationships by referring to the different types of input (which can also be interpreted as forms of investment) and output associated with these relationships:

- Employees put labour into the firm and take money out.
- Suppliers provide the firm with goods and services and receive money in return.
- Customers are supplied with goods and services in exchange for money.
- Investors and creditors put money into the firm and receive money in return.
- Debtors use the firm’s resources for a fee.
- Government provide goods (water and roads) and services (police and fire protection) in exchange for licence fees and taxation.

Ackoff (1994:39) and Freeman’s (1984:25) views of stakeholder relationships are illustrated in Figure 4.1
It is evident from Figure 4.1 that the possibility of relationships among stakeholder groups themselves is not considered. Post et al. (2002:18) criticise this view on the grounds that dyadic linkages often result in zero-sum games. For example, if employees are given a salary increase, investors receive smaller dividends, or consumers pay more for the company’s products. One stakeholder group gains at the expense of another.

In order to remedy this inherent weakness of the original stakeholder view of the firm, Post et al. (2002:18) propose a “new stakeholder view of the firm” which acknowledges that the firm is involved in a complex web of relationships. In similar fashion, Rowley...
(1997:887;890) uses social network analysis to explain stakeholder relationships and points out that stakeholders have direct relationships with one another as well. Stakeholder relations are therefore multilateral, rather than dyadic. It is important to note though, that it is unlikely that all stakeholders will be linked directly to each other.

Although the dyadic view of stakeholder relationships does not portray corporate reality, Ackoff’s (1994:39) system perspective presents a strong argument in favour of broadening the definition of investor relations (read financial communication) to include stakeholders, other than the financial community. It was noted in Chapter 2 that most definitions of investor relations only refer to communication with the financial community. However, Etzioni (1998:680) points out that all stakeholders make some kind of investment in the company.

The term “relationship” has appeared regularly in the preceding sections on corporate governance, corporate social responsibility and stakeholder theory. But it is not only scholars in these fields who are interested in the concept of relationships. Since the late 1990s public relations scholars have shown a keen interest in the potential of relationship management as a general theory of public relations.

4.5 Public relations and relationship management

Since Ferguson advocated that relationship management should be at the core of public relations theory and practice in 1984, various scholars have defined public relations in terms of relationship management (Ledingham & Bruning, 2000b:56; Bruning & Ledingham, 2000:85). For example, Cutlip et al. (1994:2) define 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”. Varey and White (2000:10) concur with the idea that public relations is the part of management that is concerned with relationships. Similarly, Grunig (1992a:20) declares that the main purpose of public relations is to help the organisation to build relationships with publics that constrain or enhance its ability to meet its mission.
4.5.1 Towards a relational definition of public relations

Bruning and Ledingham (2000:86-7) remark that, due to the journalistic origins and mass communication perspective of public relations, the perception exists that its sole function is the creation and dissemination of messages. However, public relations is moving away from this narrow focus of managing or manipulating public opinion by means of symbolic communication messages. The emphasis is now on building, nurturing and maintaining mutually beneficial relationships with publics (Bruning and Ledingham, 2000:87; Kent & Taylor, 2002:23; Ledingham, 2001:288).

Grunig (1993:122) distinguishes between symbolic relationships and behavioural relationships. In the past, when organisations were still very small, managers of organisations had personal relationships with various publics. However, as organisations increased in size, they had to use the media to build symbolic relationships, rather than behavioural relationships. This, according to Grunig (1993:136) reduces public relations to an image building exercise.

According to Bruning and Ledingham (2000:87), the current trend is towards combining symbolic communication messages and organisational behaviours. Although Grunig (1993:123) considers long-term behavioural relationships to be the essence of public relations, he also acknowledges that symbolic relationships cannot exist without behavioural relationships, and vice versa.

4.5.2 Theoretical underpinnings of the relational perspective

The relational perspective is not limited to public relations literature, theory building and research. There are a number of theories that can be used as the foundation of relationship management, but the systems, resource dependency and social exchange theories are of importance to this study.
Systems theory
A system is defined as a set of objects or events that are grouped together by sets of relationships (Baskin & Aronoff, 1988:53). Systems are either open or closed, depending on the nature of their relationship with the environment. An open system actively interacts with its environment and is constantly rejuvenated by energy from it. A closed system has no interaction with its environment, and deteriorates as a result of lost energy. This phenomenon is known as entropy (Glautier & Underdown, 1995:11).

Synergy and cybernetics are two important concepts in systems theory. According to Baskin and Aronoff (1988:53) and Puxty (1998:36) synergy, or holism, means that the whole is greater than the sum of the parts. The behaviour of a system can only be understood when looking at it in its totality, and focusing on the relationships between the various parts. Cybernetics refers to the control of the direction of a system through feedback from the environment. To survive, systems must constantly adjust to changes in the environment. Cutlip, Center, Broom and Du Plessis (2002:22) refer to the paradox that open systems must constantly change in order to stay the same. This is known as a state of dynamic homeostasis.

Baskin and Aronoff (1988:52) maintain that communication operates in the form of systems. Organisations are defined as systems, as networks of interdependent relationships. Various public relations scholars recognise the importance of systems theory as an overarching construct for relationship management (Broom, Casey & Ritchey, 2000:15; Ledingham & Bruning, 2000a:xiv). Two related concepts are emphasised: interdependence and mutual benefit. Cutlip et al. (2002:15) argue that an open system perspective to public relations means that mutually dependent relationships are built and maintained between an organisation and its publics. Ledingham (2003:182) also expresses the view that public relations initiatives should generate mutual benefits – for the organisation and the publics.
According to Broom et al. (2000:15), exchange or transfer of information, energy and resources occur in relationships. These exchanges cause changes in both the organisation and the publics (Cutlip et al., 2002:28). This is typical of the two-way symmetrical model of public relations, as identified by Grunig and Hunt (1984:41).

- **Resource dependency and social exchange theories**

According to resource dependency theory, organisations enter into relationships because they need resources. The transactions involving the exchange of resources (such as money, physical facilities and materials) form the basis of these relationships (Broom et al., 2000:11; Hallahan, 2000:503). Social exchange theory suggests that people or organisations decide which relationships to involve themselves in, based on a cost-benefit analysis. In other words, people or organisations expect something in return for their contribution to the relationship. If a partner in the relationship’s expectations are not met or exceeded, the relationship will either not be initiated, or eventually terminated (Hallahan, 2000:503; Ledingham, 2001:289). Grunig and Huang (2000:35) declare that these theories only explain certain types of organisation-public relationships.

### 4.5.3 Two-way symmetrical public relations and relationship management

Grunig and Hunt (1984:21) identify four models of public relations. These are described in Chapter 2, Section 2.5. Grunig and Grunig (1992:307) contend that two-way symmetrical public relations is the ideal or excellent form of public relations. However, there are scholars that challenge the supremacy of the two-way symmetrical model. Hallahan (2000:509), for example, points out that the model is only adequate to explain a limited number of organisation-public relationships. In many instances, the organisation is more powerful than the public, which makes symmetry impossible. In response to the criticism against the two-way symmetrical model, Grunig and White (1992:49) acknowledge that the model can accommodate mixed motives in public relations. According to Grunig and Huang (2000:39), the so-called mixed-motive model can be seen as the most recent version of the two-way symmetrical model. Hallahan
(2000:512) refers to a combination of advocacy (or persuasion) and accommodation in this regard.

Nevertheless, the link between relationship management and the two-way symmetrical model is still recognised (Ledingham, 2003:181). Grunig and Huang (2000:27) maintain that organisations will be more effective in building relationships that are symmetrical (to the benefit of both the organisation and publics), than building ones that are asymmetrical (which only benefits the organisation).

4.5.4 The rationale behind adopting a relational perspective to public relations

Public relations’ struggle to gain recognition for its contribution to organisational success and goal achievement is well documented. Ledingham and Bruning (2000a:xiii) propose that the relationship paradigm provides a framework to investigate the linkage between public relations objectives and organisational goal achievement. Grunig (1993:136) contends that public relations can prove its value by building long-term relationships with strategic publics. In fact, Huang (2001:61-62) reports that it has been demonstrated that positive relationships between an organisation and its publics contribute to organisational effectiveness.

Organisational effectiveness is the central tenet of the excellence theory of public relations: excellent public relations makes organisations more effective by building long-term relationships with strategic publics (Grunig, Grunig & Ehling, 1992:86). This is done by reconciling the goals of the organisation with the expectations of the publics. Grunig et al. (1992:70) identify four approaches to organisational effectiveness. According to the goal attainment approach, organisations are effective when they reach their goals, while the systems approach posits that organisations are effective when they survive in their environment. The strategic contingencies approach states that organisations are effective when they manage to satisfy the demands of those publics critical to their survival. According to the competing values approach, organisations are effective if they succeed in incorporating the values of strategic constituencies into their
own goals (Grunig et al., 1992:76; Grunig & Huang, 2000:30-31). The latter approach is based on the same premise as the corporate community model of stakeholder relationships, discussed in Section 4.4.5.

Because the primary goal of business is to be profitable, an organisation’s public relations function will gain the respect of senior management if it can demonstrate how it contributes to this goal. According to Grunig and Grunig (1992:308), research suggests that the two-way symmetrical model of public relations (which may lead to a relational focus) contributes to the bottom line. In similar fashion, Grunig and Huang (2000:24;32) contend that public relations’ contribution to organisational effectiveness has monetary value, either by helping to save money, or by making money for the organisation. When an organisation has positive relationships with its strategic publics, costs associated with litigation, boycotts or similar campaigns are reduced, while the support of publics such as consumers, employees and shareholders can help an organisation to make money. Galbreath (2002:17) maintains that the ultimate sources of revenue and net income growth are an organisation’s relationships with key publics.

4.5.5 Two models of organisation-public relationships

In the preceding sections, the term “relationships” was used to refer to the new emphasis in public relations literature and practice. But what do relationships with publics entail? Broom, Casey and Ritchey (1997:83; 2000:5) and Grunig and Huang (2000:25) observe that, although the concept of relationships is central to public relations, neither scholars nor practitioners have succeeded in defining it in a useful or measurable way. In order to address this deficiency, Broom et al. (1997) conceptualised a three-stage model of organisation-public relationships, which was later reconceptualised by Grunig and Huang (2000).
Broom et al.’s (1997) model of organisation-public relationships

Broom et al. (1997:86) conceptualised a three-stage model of organisation-public relationships, based on a review of relationship literature from interpersonal and organisational communication, social psychology and other fields. The model includes antecedents, relationship concepts and consequences of relationships. The model is depicted in Figure 4.2.

Figure 4.2  Broom, Casey and Ritchey’s (1997) model of organisation-public relationships

- **Antecedents**: Social and cultural norms, collective perceptions and expectations, needs for resources, perceptions of uncertain environment, legal/voluntary necessity.

- **Concept Relationships**: Properties of exchanges, transactions, communications, other interconnected activities.

- **Consequences**: Goal achievement, dependency/loss of autonomy, routine and institutionalised behaviour.

Source: Broom et al. (1997:94)

Antecedents explain why organisations enter into relationships with certain publics (Grunig & Huang, 2000:29). Broom et al. (2000:16) describe antecedents as those sources of change pressure from the environment that lead to the formation of relationships. They include social and cultural norms, collective perceptions and expectations, needs for resources, perceptions of an uncertain environment and legal or voluntary necessity. Relationship concepts are used to define the nature of relationships in terms of exchanges, transactions, communication and other...
interconnected activities (Grunig & Huang, 2000:29). According to Broom et al., (2000:16), consequences are the outputs of relationships that cause changes in the environment. Figure 4.2 clearly indicates that these consequences become the antecedents of a next “cycle” of relationship formation, maintenance or dissolution.


  Grunig and Huang (2000:29) remark that the model of Broom et al. (1997) provides an excellent framework for further theoretical development. Consequently, the model was reconceptualised by making the following replacements:
  - antecedents with *antecedents from general excellence theory*;
  - relationship concepts with *maintenance strategies*, derived from models of public relations and conflict resolution; and
  - consequences with *relationship outcomes*.

  Figure 4.3 represents an abridged version of Grunig and Huang’s (2000) model.
### Antecedents

Antecedents, according to Grunig and Huang (2000:33), result from the public relations problem facing organisations: management decisions have consequences on publics inside or outside the organisation, or the behaviour of internal or external publics have consequences on the successful implementation of management decisions. The maintenance strategies have been adapted from Stafford and Canary’s five maintenance strategies for romantic relationships (Grunig & Huang, 2000:37). Table 4.1 illustrates this adaptation. Note that all the maintenance strategies are symmetrical in nature.
Table 4.1 Adaptation of romantic relationship maintenance strategies to organisation-public relationship maintenance strategies

<table>
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<tr>
<td>▪ Positivity</td>
<td>▪ Unconditional constructiveness</td>
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<tr>
<td>▪ Openness (disclosure of thoughts and feelings)</td>
<td>▪ Openness (disclosure of information)</td>
</tr>
<tr>
<td>▪ Assurances of love and commitment</td>
<td>▪ Assurances of legitimacy</td>
</tr>
<tr>
<td>▪ Networking (having common friends)</td>
<td>▪ Building networks with publics</td>
</tr>
<tr>
<td>▪ Shared tasks (such as household duties)</td>
<td>▪ Shared tasks (problem solving in the interest of either the organisation or public, or both)</td>
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In addition to these maintenance strategies, Grunig and Huang (2000:38-39) also include three conflict resolution strategies, reflecting assumptions of the symmetrical, asymmetrical and mixed-motive models of public relations. The integrative strategy is symmetrical in nature and emphasises the reconciliation of interests in order to obtain joint benefits. The asymmetrical distributive strategy typically results in a win-lose situation, while the dual concern strategy seeks to balance the interests of publics with the interests of the organisation. In other words, all parties concerned need to make compromises. The integrative strategy is based on similar assumptions as the corporate community model which calls for stakeholder collaboration. The dual concern strategy also reflects one of the major debates in stakeholder theory (see Sections 4.4.4 and 4.4.5).

According to Huang (2001:65), four dimensions of relationships represent the essence of organisation-public relationships. The dimensions are trust, control mutuality, commitment and satisfaction. Control mutuality refers to the degree of symmetry or asymmetry of power in relationships. Commitment is understood as the degree of resource interchange in relationships. Grunig & Huang (2000:37) view these
dimensions as the outcomes of relationships, and add goal achievement - one of the consequences identified by Broom et al. (2000:16) - to the list.

Both these models are useful for understanding the nature of organisation-public relationships. In Chapter 5 a synthesis of these models is used to conceptualise financial communication as the management of relationships with a wide range of publics (stakeholders).

4.6. Conclusion

From the discussions in Chapters 2 and 3, it has become evident that current approaches to financial communication focus primarily on communication with the financial community. This is identified as a major shortcoming of the current approach to financial communication. But is it really a shortcoming? After all, it makes sense to communicate financial information to financial audiences. Do other “non-financial” stakeholders need financial information? Based on the foregoing review of corporate governance, corporate social responsibility, stakeholder and public relations literature, the answer is yes.

The 2002 King Report on Corporate Governance is a very influential document in South Africa. Companies listed on the JSE are expected to adhere to the principles stipulated in the report. Besides providing clear guidelines in terms of the roles of the Board of Directors, financial reporting and auditing, it also dedicates an entire chapter to stakeholder relationships. The King II calls for an inclusive approach that recognises the interests of stakeholders, identified by the company as important to its business and long-term sustainability (in more than financial terms). It emphasises accountability to stakeholders in terms of a company’s financial, social and environmental performance.

This three-dimensional accountability, also referred to as the triple bottom line, is the main theme of corporate social responsibility. Contrary to the perception that corporate social responsibility is about corporate charity, or a “public relations exercise”, the
literature emphasises that it should be seen as a “corporate way of life”. The rationale behind corporate social responsibility is that society (consisting of various stakeholders) 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.

Ackoff’s (1994) systems perspective of the organisation provides another angle to the justification of an inclusive approach to financial communication. According to this perspective, all stakeholders need to make decisions regarding the allocation of their resources (financial and non-financial). These decisions can be seen as investment decisions. Although all these investments are not financial in nature, they do have financial implications. For example, employees need to decide in which company to invest their skills and resources. To do that, they need financial information about salaries and benefits. Therefore, stakeholders need information that will help them to make optimal decisions regarding the allocation of their resources.

There is also the argument that stakeholder relationships are the contemporary company’s most valuable asset. But what motivates the company and stakeholders to engage in relationships with each other? Broom et al. (1997) identify certain antecedents to relationships, including the need for resources. This is especially significant for financial communication, as it facilitates decisions regarding the allocation of resources.

Corporate governance, corporate social responsibility and stakeholder literature provide compelling reasons for the acceptance of a broader, inclusive approach to financial communication, by emphasising the importance of stakeholder relationships. However, these perspectives fail to explain how these relationships should be built and maintained. The public relations literature that concentrates on relationship management addresses this problem.
In Chapter 5, a conceptual model is developed, based on an integration of theoretical perspectives from this chapter, as well as from Chapters 2 and 3. The aims of the conceptual model are, amongst others, to:

- acknowledge each perspective’s unique contribution to a broader understanding of financial communication; and
- establish a broad framework within which future research can be conducted.
Research objective:

4. To develop a conceptual model, based on an inclusive and integrated approach to financial communication.
CHAPTER 5
A conceptual model for an inclusive and integrated approach to financial communication

Although all models are “false” in the sense that no representation can capture reality perfectly, we would have no understanding of reality at all if we had no model with which to work. - Grunig & Grunig (1992:286)

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.

- Varey & White (2000:5)

5.1 Introduction
The problem that this study seeks to address is that confusion exists regarding the nature, management and organisation of financial communication. In Chapter 2, the problem is discussed from an investor relations perspective, while Chapter 3 provides an accounting perspective to the problem. The major shortcoming of both these perspectives is that both only concentrate on communication with the financial community. This leads to the major argument presented in Chapter 4 – a theoretical justification for an inclusive (stakeholder) approach to financial communication. Perspectives from the corporate governance, corporate social responsibility, stakeholder theory and public relations as relationship management literature are used
to construct this argument. Another shortcoming of the current approach to financial
communication (from and investor relations as well as an accounting perspective) is that
there is a lack of integration, both in terms of management and organisation.

None of the perspectives discussed in Chapters 2, 3 and 4 provide a complete picture
of the financial communication process. Rather, each perspective represents “one
piece of the puzzle”. Thus, the purpose of this chapter is to combine these perspectives
in a conceptual model for an inclusive, as well as an integrated approach to financial
communication.

5.2 What is a model?
Models form an essential part of people's understanding of the world they live in.
Severin and Tankard (1988:30) remark that models are used every time people
systematically think about, visualise or discuss a structure or process (past, present or
future). A model can therefore be defined as a theoretical and simplified representation
(in graphic form) of a piece of reality, or anticipated reality (McQuail & Windahl, 1981:2;
Severin & Tankard, 1988:17). Models and theories are often confused with one
another. The role of a model is representation, while the role of theory is explanation
(Cooper & Schindler, 2003:55). In other words, a model represents a certain theoretical
explanation of a structure or process.

Models can be used for several purposes. Severin and Tankard (1988:31) refer to four
distinct functions of models. In the first place, models make it possible to order and
relate data and show similarities and relationships between data that have not been
identified before. This is known as the organising function of models. Models can also
explain something that has not been understood before, in a simplified way – the
heuristic function of models. Models also have the function of predicting outcomes or a
certain course of events (McQuail & Windahl, 1981:2). Lastly, when a model allows
completely quantitative predictions, it can be used for measurement. In the context of
this study, the organising function of models is the most applicable.
Cooper and Schindler (2003:55) identify three major functions of modelling, namely description, explication and simulation. Descriptive modelling is appropriate when theory about a system and its elements is inadequate or nonexistent. Explicative modelling aims to improve understanding of the key concepts of well-developed theories. The purpose of simulation modelling is to reveal and clarify relations between these concepts. Of the three major functions, descriptive modelling is the most relevant to this particular study.

Severin and Tankard (1988:31) point out that a model provides a framework within which a particular problem can be considered. Although early versions of a model might not lead to prediction, it can still help to identify knowledge gaps and areas where research is needed. This view is closely related to certain elements of the whole systems model of problem solving of Mitroff et al. (1974:47), as discussed in Chapter 1. Circle I involves the identification of a reality problem situation. Activity 1, conceptualisation, leads to Circle II - the development of a conceptual model. Conceptualisation requires global, intuitive thinking and involves formulating “interesting problems, puzzles or paradoxes” (Mitroff et al., 1974:50). The conceptual model defines the reality problem situation in broad terms. In other words, it provides the framework within which the problem can be considered.

It is important to note that Mitroff et al. (1974:47) distinguish between a conceptual model and a scientific model. A scientific model is more formal than a conceptual model. Modelling, activity 2 of the Mitroff et al. (1974:48; 50) model, requires formal analytical skills and the ability to formulate “significant relationships within some formal system of abstract thought”. Only a scientific model can be formally validated (activity 6), by determining whether it accurately represents the reality problem situation. This is done by using various analytical tools.
This chapter is dedicated to the development of a conceptual model for an inclusive and integrated approach to financial communication. Therefore, when one applies the above to this particular study, this conceptual model serves three functions, namely:

- providing graphical representations of the various theoretical perspectives surrounding financial communication (as discussed in Chapters 2, 3 and 4);
- organising these theoretical perspectives by identifying similarities between them, as well as acknowledging each one’s unique contribution to a broader understanding of financial communication; and
- establishing a broad framework within which future research can be conducted.

In the section that follows, various theoretical perspectives surrounding financial communication are briefly reiterated, accompanied by graphical representations.

5.3 Perspectives surrounding financial communication

In Chapter 2, the current approach to financial communication is described from an investor relations perspective. The Financial Director (or accounting professional) is identified as a major role player in the management of investor relations. In Chapter 3, financial communication is then described from an accounting (or accountant’s) perspective. In this chapter, a slightly different train of thought is followed. The accounting perspective to financial communication is described before the investor relations perspective. The reason for this will become evident in the discussion that follows.

5.3.1 Financial communication from an accounting perspective

In Chapter 3, reference is made to six images of accounting, as identified by Davis et al. (1982:309-313). One of the images, accounting as information system, is especially useful to describe part of the financial communication process. Glautier and Underdown (1995;13) refer to the input, processing and output components of the accounting information system, while Gouws (1997:63) refers to the need to record, audit, report, interpret, analyse, compare, decide and respond.
Furthermore, accounting is characterised by two main objectives – accountability (or stewardship) and decision-usefulness. According to the accountability objective, the purpose of accounting is to provide information that will help principals (owners, investors) determine how well their investments have been utilised by the agent (corporate management). In Figure 5.1, the views of Glautier and Underdown (1995:13) and Gouws (1997:63) regarding the accounting information system, are combined. The accounting information system is specifically depicted in terms of the accountability objective.

**Figure 5.1   The accounting information system in terms of the accountability (stewardship) objective**

![ACCOUNTING INFORMATION SYSTEM](image)

Adapted from: Glautier & Underdown (1995:13) and Gouws (1997:63)

In the conclusion to Chapter 3, it is noted that accounting is very selective in its observation of data from the environment – accounting conventions serve as a filter that only admits certain types of data to be recorded (input). This data is then processed into output, in the form of financial statements. Owners (or principals) use these statements to evaluate the company’s performance. Note that this is a one-way process.
The second objective of accounting – decision-usefulness – encompasses the accountability objective, and adds a further dimension to the accounting information system: users’ information needs. The accounting information system is now designed with the information needs of users foremost in mind. In other words, users’ information needs determine the nature of the input, processing and output components of the accounting information system. In Figure 5.2, a combination of the views of Glautier and Underdown (1995:13) and Gouws (1997:63) is used again, but this time the accounting information system is portrayed in terms of the decision-usefulness objective.

**Figure 5.2 The accounting information system in terms of the decision-usefulness objective**

Adapted from: Glautier & Underdown (1995:13) and Gouws (1997:63)

Users use the output of the accounting information system to decide how and where to allocate their resources. For example, information from different companies is interpreted, analysed and compared in order to decide which one offers the best
investment possibilities. This is where the accountability objective of accounting still plays an important role. Users’ decisions serve as feedback, which, in turn, has an influence on the design of the accounting information system. Therefore, when the decision-usefulness objective lies at the heart of the accounting information system, it becomes a two-way process. The decision-usefulness objective of accounting is based on similar assumptions as the two-way symmetrical model of public relations. The similarities between the various perspectives surrounding financial communication are highlighted Section 5.4.

**5.3.2 Financial communication from an investor relations perspective**

Even though the decision-usefulness objective leads to a reconceptualisation of the accounting information system as a two-way process, the output still remains a problem. Only users with a sound financial background are able to interpret and use the information in financial statements. “Ordinary” users need experts to interpret the information and advise them accordingly.

This is where the investor relations function enters the picture. According to Thompson (in Allen, 2002:209), the objective of investor relations is to provide information to investors that is clear and understandable, or to “tell the company’s story” (Green, 1997:11). In other words, the investor relations function serves as an intermediary between a company’s accounting information system and the users of the information output. Furthermore, there are outsiders such as analysts and the financial media that also function as intermediaries between a company and various users. Being users themselves, they interpret financial information received from a company and advise other users regarding the allocation of their resources.

However, White and Mazur (1996:219) report that in many cases, Investor Relations Managers only fulfil a supporting role. A company’s financial messages should be communicated by the Chief Executive Officer or Chairman, Financial Director or at least by a member of the Board. The role of the Investor Relations Manager is to advise
these executives in terms of what they should be saying, and to whom. According to Marston (1996:478), prominent members of the financial community, such as fund managers, still prefer contact with these senior executives, rather than with the Investor Relations Manager. Although the position of Investor Relations Manager or Officer exists in many companies, the investor relations function remains the primary responsibility of the Financial Director. The investor relations perspective to financial communication can be depicted as in Figure 5.3.

**Figure 5.3  Financial communication from an investor relations perspective**

In Figure 5.3, the Financial Director is depicted as having two roles. Apart from overseeing the design and functioning of the accounting information system, he or she also manages the investor relations function. Also note that investor relations is depicted as a two-way process. Grunig and Hunt (1984:348-9) are of the opinion that
the legal and statutory requirements associated with financial disclosure, limit investor relations to the use of the one-way public-information or two-way symmetrical models of public relations. An overview of the most commonly stated objectives of investor relations (see Chapter 2, Section 2.4) provides evidence of this. For example, Smith (1989:12) states that one objective of investor relations is to convey something of the spirit of the company and its objectives (public information model), while Baskin et al. (1997:317) refer to the building of positive relationships with the financial community (the two-way symmetrical model).

However, properties of the two-way asymmetrical model are also evident. For example, Seitel (2001:458) states that one of the objectives of investor relations is to disclose information that will have an impact on investors’ decisions to buy, sell or hold shares. In other words, research must be done beforehand, to establish what information will influence investors’ decisions. It is also noted in Chapter 2 that investor relations is increasingly seen as a marketing function that actively sells the company’s shares. A related view is that investor relations is a specialised discipline that helps the company compete for capital (Marcus & Wallace, 1997:1). The emphasis is therefore not on mutual benefit (for both the company and investors), but on persuasion, in order to reach the company’s objectives. In conclusion, investor relations is most commonly described as a two-way communication process.

5.3.3 The current approach to financial communication

It is apparent from the investor relations literature that financial communication is no longer seen as the responsibility of the public relations function. Furthermore, according to both the investor relations and accounting perspectives, financial communication is only directed at the financial community. Figure 5.4 portrays a synthesis of these perspectives.
In the figure above, public relations (PR) is isolated from financial communication efforts. There is also a slight overlap between the accounting (A) and investor relations (IR) functions. This is to indicate that both are characterised by a narrow focus on “financial” stakeholders and that, in many cases, the Financial Director assumes final responsibility for investor relations.

5.4 Similarities between the perspectives surrounding financial communication

It has been noted previously that one function of models is to highlight connections or similarities between data. In this study, perspectives from seemingly unrelated disciplines are used to describe the current approach to financial communication, as well as to justify a broader, inclusive approach. However, when one examines the main
themes of Chapters 2, 3, and 4, one can identify certain common denominators. These are summarised in Table 5.1.

Table 5.1 Similarities between the perspectives surrounding financial communication

<table>
<thead>
<tr>
<th>Chapter 2</th>
<th>Chapter 3</th>
<th>Chapter 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Isolation of investor relations from public relations</td>
<td>▪ Expanding role of the accounting profession and professional</td>
<td>▪ Corporate governance – inclusive approach</td>
</tr>
<tr>
<td>▪ Financial Director assumes final responsibility for investor relations</td>
<td>▪ Accountability objective – accountable only to investors/&quot;owners&quot;</td>
<td>▪ Stakeholder theory</td>
</tr>
<tr>
<td>▪ Communication only with financial community</td>
<td>▪ Decision-usefulness objective – consider the financial information needs of a wide range of users</td>
<td>▪ Two-way symmetrical communication</td>
</tr>
<tr>
<td></td>
<td>▪ Corporate social accounting</td>
<td>▪ Corporate social responsibility (triple bottom line)</td>
</tr>
<tr>
<td></td>
<td>▪ The ethics of care - emphasises relationships</td>
<td>▪ Corporate governance</td>
</tr>
</tbody>
</table>

The term “financial communication” implies an interdisciplinary nature. However, current approaches to financial communication do not acknowledge the full extent of this interdisciplinary nature. In the sections that follow, an inclusive, as well as an integrated approach to financial communication is advocated, based on the contributions of various disciplines.
5.5 An inclusive approach to financial communication

Perspectives from corporate governance, corporate social responsibility, stakeholder theory and public relations as relationship management provide the theoretical backbone for an inclusive approach to financial communication. Normatively speaking, this means that financial communication should not only be directed at the financial community, but at a broad range of stakeholders. Stakeholders - “financial” and “non-financial” - make decisions regarding the allocation of resources. These decisions all have financial implications. In addition, these decisions imply that new relationships are formed between an organisation and its stakeholders, or that existing ones are either maintained or terminated.

In contemporary times, a company’s most valuable asset is its relationships with stakeholders. The public relations literature dedicated to relationship management, provides valuable insight into the reasons why stakeholders engage in relationships with organisations, as well as the nature and outcomes of these relationships. For example, Broom et al. (1997) developed a model that describes organisation-public relationships in terms of antecedents, relationship concepts and consequences. A later version by Grunig and Huang (2000) describes relationships in terms of situational antecedents, maintenance strategies and relationship outcomes.

Both these models contain aspects that are especially significant for financial communication. For example, one of the antecedents listed by Broom et al. (1997) is the need for resources. Organisations and stakeholders engage in relationships based on a mutual need for financial and other resources. The role of financial communication is to provide information that will help stakeholders (and in some cases the organisation as well) to decide where and how to allocate resources (and by implication, which relationships to enter).
Similarly, relationships between the organisation and stakeholders are characterised by exchanges, transactions and, therefore, financial communication. Disclosure (or openness), as one of the maintenance strategies mentioned by Grunig and Huang (2000), relates directly to the financial communication process. In accounting terms, disclosure refers to making information about the company’s performance and prospects available. Building and maintaining trust is one of the most important objectives of investor relations (Allen, 2002:207; Arfin, 1994:38). Grunig and Huang (2000) cite trust as one of the outcomes of organisation-public relationships.

Although all the aspects covered in the models of Broom et al. (1997) and Grunig and Huang (2000) are applicable to financial communication, some are especially useful to describe the financial communication process. Figure 5.5 represents a combination of these models. Those aspects that are particularly relevant to financial communication are highlighted. Note that trust, as outcome, serves as antecedent to maintain existing relationships.
Figure 5.5  A combination of the models of Broom et al. (1997) and Grunig and Huang (2000)

- Antecedents
  - Social and cultural norms
  - Collective perceptions and expectations
  - Needs for resources
    - Perceptions of uncertain environment
    - Legal/voluntary necessity
- Properties of Relationships
  - Exchanges
  - Transactions
  - Communication
    - Other interconnected activities
- Maintenance strategies
  - Symmetrical
  - Disclosure
    - Assurances of legitimacy
    - Participation in mutual networks
    - Shared tasks
- Relationship outcomes
  - Control mutuality
  - Commitment
  - Satisfaction
  - Trust
  - Goal Attainment

Combined from: Broom et al. (1997:94) and Grunig and Huang (2000:34)
5.6 An integrated approach to financial communication

In Chapter 2, a lack of integration is identified as one of the shortcomings of the current investor relations approach to financial communication. Furthermore, results of empirical research suggest that in most cases, the Financial Director (an accountant) assumes final responsibility for investor relations (Marston, 1996; McGrath, 1974; Petersen & Martin, 1994). Vinten (2000:381) remarks that, by stereotype, accountants are not known for their recognition of the wider stakeholder concept. However, Vinten also acknowledges that this scenario is changing. The stakeholder concept is well established in business literature and practice. Accountants have no choice but to take note of it.

Nevertheless, the management of relationships with stakeholders is not the main focus of accounting theory or practice. However, according to a growing body of literature, it is the main focus of public relations. Contemporary definitions refer to public relations as the management of relationships (Cutlip et al., 1994:2; Grunig, 1992a:20; Varey & White, 2000:10). It is therefore suggested that an inclusive approach to financial communication also calls for an integrated approach to the management and organisation of the financial communication process.

The financial communication process can be conceptualised by combining various perspectives surrounding financial communication. Following an inclusive approach, the first step in the process is to identify all relevant stakeholders. According to Grunig and Repper (1992:117;126), the strategic role of public relations is to define and understand an organisation’s environment. This is done by drawing a stakeholder map, based on extensive environmental scanning. Grunig and Huang (2000:31) note that this information is difficult for other managers to obtain.

In the context of financial communication, it is therefore proposed that public relations should play an active role in identifying all potential stakeholders, financial and non-financial. Currently, this is not the case. It has been noted before that investor relations
is increasingly isolated from public relations. To ensure an inclusive approach to financial communication, this trend should be reversed – public relations should re-enter the “financial communication picture”.

However, the 2002 King Report on Corporate Governance warns against a too inclusive approach (King Committee on Corporate Governance, 2002:7). All stakeholders are not equally important at a particular point in time. Grunig and Hunt (1984:145) distinguish, amongst others, between active and passive publics. According to Grunig and Huang (2000:32), active publics (those stakeholders who recognise that an organisation’s behaviour holds problematic consequences for them) are the most strategic for an organisation. Thus, a distinction must be made between active and passive publics.

Grunig and Huang (2000:32) remark that 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 relevant stakeholders, “financial” and “non-financial”. This is to ensure an inclusive approach to financial communication. Figure 5.6 depicts this approach.
Figure 5.6 An inclusive approach to financial communication

Note that financial communication (FC) is portrayed as an interface between public relations (PR), investor relations (IR) and accounting (A). Public relations is no longer isolated, but actively involved in the financial communication process.

The identification of relevant stakeholders is only the first step in the financial communication process. The next step involves research to determine the specific financial information needs of each of these groups. The rounded arrows in Figure 5.6 depict the process of determining the information needs of all relevant stakeholders, as well as measures to facilitate continuous feedback from these stakeholders. This step is vital to ensure that financial communication is a dynamic two-way process and not merely a one-way financial disclosure exercise.
The information needs of stakeholders influence the design of the accounting information system. This relates directly to the decision-usefulness objective of accounting. However, financial disclosure, the output of the accounting information system, is not the end of the financial communication process. As noted previously, not all stakeholders are able to interpret and use financial information in the format dictated by statutory requirements. The information therefore needs to be “reformatted” to address the needs of various stakeholders. According to Diamond (1997:30), this is the role of the corporate communication (or public relations) practitioner – he or she has the knowledge and skills to translate one-way financial disclosure into two-way financial communication.

From the above, it might seem as if the financial communication process is conceptualised as a linear one, with different managers and functions assuming responsibility for different stages. This, however, 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. In other words, the Public Relations Manager, Investor Relations Manager (as specialist), the Financial Director and their respective departments should be involved in all the steps. Figure 5.7 depicts this approach.
This is not to say that the three functions (and their respective managers) depicted in Figure 5.7 play equal roles in all of the steps. For example, it is the strategic role of public relations to do environmental scanning and identify all relevant stakeholders – those groups that have an influence on the company, or who are being influenced by it (Grunig & Repper, 1992:117;126). The Financial Director and Investor Relations Manager (and their respective functions) can then assist the Public Relations Manager and department to distinguish between strategic and less strategic stakeholders (publics).

Combined efforts will also be necessary to determine the financial information needs of stakeholders. The expertise and experience of the Financial Director and the Investor Relations Manager (and their respective departments) will be helpful in establishing the
information needs of “financial” stakeholders. The role of the Public Relations Manager (and department) will be to focus the attention of these executives and departments on the information needs of “non-financial” stakeholders as well.

When it comes to the design of the accounting information system, the Financial Director (and department) will obviously take the lead. However, because all stakeholders are not able to access, interpret and use the output of the accounting information system, intermediaries are needed to either “reformat” the information, or to interpret it on behalf of stakeholders. There are two such intermediaries within the organisation. In the first place, the Investor Relations Manager (and function) might take the lead in communicating with sophisticated, as well as less sophisticated financial stakeholders. In the latter instance, it might be necessary to reformat the output of the accounting information system. Similarly, the Public Relations Manager (and function) might take responsibility for reformatting accounting information, so that non-financial stakeholders can understand, interpret and use it. There are also external intermediaries (such as analysts and the financial media) who interpret the information and advise stakeholders accordingly.

Finally, the cross-functional team will have to monitor the company’s relationships with the various stakeholder groups. Is the information provided to each group adequate to facilitate informed decisions regarding the allocation of resources? Why was a particular relationship terminated, or why did a particular stakeholder decide not to enter into a relationship with the company? Information obtained by asking questions like these can then be used to redraw the company’s stakeholder map and redesign the accounting information system accordingly.

It is acknowledged that other functions and disciplines should also be involved in the financial communication process. For example, legal and marketing expertise is also needed. A company 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.
However, the focus of this study is only on the role of public relations, accounting and investor relations (as a specialist field) in the financial communication process.

### 5.7 Conclusion

The content of this chapter is a natural progression of the contents of Chapters 2, 3 and 4. Perspectives from investor relations, accounting, corporate governance, corporate social responsibility, stakeholder theory and public relations as relationship management have been merged into a conceptual model for an inclusive and integrated approach to financial communication. The “pieces of the puzzle” have been fitted to complete the “big picture” (see Figures 5.6 and 5.7).

The conceptual model proposed in this chapter is by no means the final say on financial communication. According to Mitroff et al. (1974:51), a conceptual model can never substitute a more formal, scientific model. However, it provides a starting point for interdisciplinary research and debate on the nature, management and organisation of financial communication. Financial communication cannot be tied to one distinct discipline – it is rather a grey area, or interface. It is therefore imperative to identify all the disciplines to which it is related, as well as the similarities between these disciplines, in order to build a sound theory of financial communication. This study only focuses on the contribution of the accounting, public relations and investor relations disciplines to financial communication.

The conceptual model is based on theory alone. Therefore, the next logical step, in terms of the Mitroff et al. (1974) model, would be to develop the conceptual model into a scientific model and test it in practice. This falls outside the scope of this study. However, exploratory and descriptive research has been done to investigate how a number of listed South African companies approach financial communication.
The objectives of exploratory research are, among others, to establish research priorities, clarify concepts and develop questions or hypotheses for further research (Cooper & Schindler, 2003:146; Neuman, 2000:21). Descriptive research aims to answer questions of who, what, where, when or how (Cooper & Schindler, 2003:149). Therefore, the empirical component of this study helps to describe the reality problem situation - Circle I of the Mitroff et al. (1974) model. It also supplements the broad theoretical framework (conceptual model) within which future research can be conducted – Circle II of the Mitroff et al. (1974) model. The research methodology is discussed in Chapter 6, while the results are presented and interpreted in Chapters 7 and 8.
Research objective:

To use empirical research to establish whether a number of South African companies listed on the Johannesburg Stock Exchange (JSE):

- follow an inclusive (stakeholder) approach to financial communication;
- follow an integrated approach (in terms of management and organisation) to financial communication.
CHAPTER 6
Research methodology

Exploratory research rarely yields definitive answers. It addresses the “what” question: “What is this social activity really about?” It is difficult to conduct because there are few guidelines to follow. Everything about a topic is potentially important. The steps are not well defined and the direction of inquiry changes frequently. - Neuman (2000:21)

6.1 Introduction
The purpose of this chapter is to describe the research methodology used in this study. Mouton (1998:39-40) makes it clear that the choice of methodology depends on the research problem and research objectives. It is therefore appropriate to restate the research problem and objectives that guide this study, as stated in Chapter 1:

Research problem:

Confusion exists regarding the nature, management and organisation of financial communication.
Research objectives:

1. To describe the current approach to financial communication, from a theoretical perspective.
2. To identify the shortcomings of the current approach to financial communication, from a theoretical perspective.
3. To provide a theoretical justification for an *inclusive* (stakeholder) approach to financial communication.
4. To develop a conceptual model, based on an *inclusive* and *integrated* approach to financial communication.
5. To use empirical research to establish whether a number of South African companies listed on the Johannesburg Stock Exchange (JSE):
   - follow an *inclusive* (stakeholder) approach to financial communication;
   - follow an *integrated* approach (in terms of management and organisation) to financial communication.
6. To identify similarities and/or differences between the results of this study and results of three similar studies conducted previously in the USA, United Kingdom and Europe.

In Chapter 1, the whole systems model of problem solving of Mitroff *et al.* (1974:47) is used to indicate the scope of this study. For the sake of clarity, the model is again depicted in Figure 6.1.
Koornhof (2001:260) used the Mitroff et al. (1974) model in an Accounting thesis on the concept of “flexibility”, and found it useful in providing legitimacy to an exploratory and non-formal research topic. It is noted in Chapter 1 that the emphasis of this study (which is also exploratory) is on the current approach to financial communication in terms of definition, management and organisation. According to the Mitroff et al. (1974) model, this involves describing a reality problem situation (Circle I) and developing a conceptual model (activity 1 and Circle II).
In Chapters 2 and 3 the reality problem situation is described by means of a review of public relations, investor relations and accounting literature. The problem situation entails three interrelated shortcomings of the current approach to financial communication:

- a lack of integration;
- the domination of the Financial (Accounting) department and its executive; and
- a narrow focus on the financial community alone.

In Chapter 4 a theoretical justification is provided for an inclusive (stakeholder) approach to financial communication. This is done by a review of corporate governance, corporate social responsibility, stakeholder management and public relations as relationship management literature. In Chapter 5, a conceptual model is developed, based on the content of Chapters 2, 3 and 4. Theoretically speaking, Circle I and Circle II of the Mitroff *et al.* (1974) model have therefore been covered.

The purpose of the empirical component of this study is to supplement the theoretical component. Survey research is therefore used to:

- investigate to what extent the reality problem situation, as described in theory, exists in practice (Circle I);
- determine whether there is evidence of an inclusive and integrated approach to financial communication, as proposed in the conceptual model (Circle II).

It is important to note that the purpose is not to generalise the findings of the research to the entire population of South African companies listed on the JSE.

This chapter is dedicated to a description of the methodology used in conducting the survey research. It is important to structure this account according to a sound theoretical framework. In the section that follows, various perspectives on research methodology are used to construct such a framework.
6.2 Perspectives on research methodology

The term “research methodology” is commonly used, but what exactly is meant by it? Does it refer to approaches, methods, techniques or instruments, or “all of the above”?

Mouton (1998:37) distinguishes between three levels of the methodological dimension of research, namely methodological paradigms, research methods and research techniques. Methodological paradigms, the most abstract level, include the distinction between qualitative and quantitative research. Research methods are those that are used in certain stages of the research process, for example sampling, data collection and data analysis. Research techniques represent the most concrete level of the methodological dimension and include specific techniques related to sampling, data collection and data analysis. This distinction between paradigms, methods and techniques is helpful in forming a better understanding of the concept “research methodology”. The three levels are set out in Table 6.1.

Table 6.1 Three levels in the methodological dimension

<table>
<thead>
<tr>
<th>LEVEL</th>
<th>EXAMPLE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Methodological paradigms</td>
<td>Qualitative or quantitative research</td>
</tr>
<tr>
<td>Research methods</td>
<td>Sampling; data collection; data analysis</td>
</tr>
<tr>
<td>Research techniques</td>
<td>Sampling techniques; data collection techniques; data analysis techniques</td>
</tr>
</tbody>
</table>

Adapted from: Mouton (1998:37)

Other terms related to research methodology are “research strategy” and “research design”. Research strategy guides the research effort by defining the context within which it will be conducted. It also provides the link between the research objectives and research activities. Research strategy is partly derived from the methodological paradigm - qualitative or quantitative - that fits a particular research problem. Research design, on the other hand, is defined as a plan of how a research project will be
conducted, specifying who or what is involved, and where and when it will take place (Du Plooy, 2001:81). In other words, research strategy indicates which “direction” will be taken, while research design indicates what needs to be done while heading in that specific direction.

In this chapter, a combination of Mouton’s (1998) three methodological levels and the concepts “research strategy” and “research design” is used to describe the methodology used in this study, as well as in similar studies conducted previously. The following three main headings are used: research strategy, research design, and research methods and techniques.

In the discussion of research strategy, reference is made to qualitative versus quantitative research, exploratory versus formal research and descriptive versus causal research. Du Plooy (2001:49) refers to research design as the methods and techniques used to collect, analyse and interpret data. However, before one can decide which particular methods and techniques to use, aspects such as the time dimension, degree of control over variables and nature of the research environment need to be clarified. Cooper and Schindler (2003:147) describe these aspects as descriptors of research design. Therefore, the discussion of research design precedes the discussion of research methods and techniques. Furthermore, Mouton (1998:36) distinguishes between research methods and research techniques, but also remarks that the distinction is one of degree and scope. Thus, research methods and techniques are discussed under one heading.

In Table 6.2, a more detailed framework of the above-mentioned levels and aspects of research methodology is provided. In the sections that follow, only those aspects relevant to this study, as well as similar studies conducted previously, are discussed. The aspects applicable to this study are highlighted in bold in Table 6.2.
### Table 6.2  A framework of the levels and aspects of research methodology

<table>
<thead>
<tr>
<th>RESEARCH STRATEGY</th>
<th>RESEARCH DESIGN</th>
<th>RESEARCH METHODS AND TECHNIQUES</th>
</tr>
</thead>
</table>
| Qualitative or **quantitative** research (Paradigms according to Mouton, 1998:37) | Control over variables  
- Experimental  
- *Ex post facto* | Sampling design  
- Unit of analysis  
- Population  
- Target population  
- Sampling frame | Sampling techniques  
- Probability (simple random; systematic; stratified; cluster; sequential or multiphase)  
- **Nonprobability** (convenience; *purposive*; snowball) |
| **Exploratory** or formal research | Time dimension  
- Cross-sectional  
- Longitudinal | Data collection | Data collection techniques  
- **Quantitative** data collection (e.g. experimental; *survey*)  
- Qualitative data collection (e.g. field observation; historical research; content analysis) |
| **Descriptive** or causal research | Research environment  
- Field  
- Laboratory  
- Simulation | Data analysis | Data analysis techniques  
- **Quantitative** data analysis  
  (*descriptive statistics*; inferential statistics)  
- Qualitative data analysis (e.g. grounded theory, discourse analysis; conversation analysis) |
| | Perceptions of participants  
- Actual routine  
- **Modified routine** | | |

Compiled from: Cooper and Schindler (2003), Mouton (1998) and Neuman (2000)
6.3 Methodology used in previous research

Various studies, similar to this one, have been conducted previously. In Chapter 2, the results of these studies are reported briefly. The emphasis of this section, however, is on the research methodology used in the three most recent studies, namely those of Petersen and Martin (1996), Marston (1996) and Marston and Straker (2001). These studies have been chosen for three main reasons. In the first place, the results of all three studies have been reported in articles published in academic journals. The credibility of the research methodology and results can therefore not be questioned.

Secondly, the studies were conducted in different countries or continents. The study of Petersen and Martin (1996) was conducted in the state of Florida, USA. Marston (1996) conducted her study in the United Kingdom, while Marston and Straker (2001) conducted their research in continental Europe, excluding the UK. In other words, the results of these studies provide perspectives from different parts of the world.

In the third place, the objectives of all three studies were similar to the objectives of this one. The study of Marston (1996) focused on the management and organisation of the investor relations function by large UK companies. The emphasis of Petersen and Martin’s (1996) study was on CEO perceptions of investor relations, and by implication the management and organisation thereof. Marston and Straker (2001) investigated the importance of investor relations, in terms of the existence and position of the investor relations function in the organisational hierarchy.

It is interesting to note that the research strategies and research design of all three studies were exactly the same. For example, all three studies used quantitative, exploratory and descriptive research. Table 6.3 summarises the research strategies and research design used by Marston (1996), Marston and Straker (2001) and Petersen and Martin (1996).
Table 6.3  A summary of the research strategies and design used in three previous studies

<table>
<thead>
<tr>
<th>STUDY</th>
<th>RESEARCH STRATEGY</th>
<th>RESEARCH DESIGN</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marston (1996)</td>
<td>▪ Quantitative</td>
<td>▪ Ex post facto</td>
</tr>
<tr>
<td></td>
<td>▪ Exploratory</td>
<td>▪ Cross-sectional</td>
</tr>
<tr>
<td></td>
<td>▪ Descriptive</td>
<td>▪ Field research</td>
</tr>
<tr>
<td></td>
<td>▪ Conducted in 1991 in the UK</td>
<td></td>
</tr>
<tr>
<td></td>
<td>▪ Investigated the organisation of the investor relations function</td>
<td></td>
</tr>
<tr>
<td>Petersen and Martin (1996)</td>
<td>▪ Quantitative</td>
<td>▪ Ex post facto</td>
</tr>
<tr>
<td></td>
<td>▪ Exploratory</td>
<td>▪ Cross-sectional</td>
</tr>
<tr>
<td></td>
<td>▪ Descriptive</td>
<td>▪ Field research</td>
</tr>
<tr>
<td></td>
<td>▪ Conducted in 1994 in the USA</td>
<td></td>
</tr>
<tr>
<td></td>
<td>▪ Investigated CEO perceptions of investor relations</td>
<td></td>
</tr>
<tr>
<td>Marston and Straker (2001)</td>
<td>▪ Quantitative</td>
<td>▪ Ex post facto</td>
</tr>
<tr>
<td></td>
<td>▪ Exploratory</td>
<td>▪ Cross-sectional</td>
</tr>
<tr>
<td></td>
<td>▪ Descriptive</td>
<td>▪ Field research</td>
</tr>
<tr>
<td></td>
<td>▪ Conducted in 1998 in Europe</td>
<td></td>
</tr>
<tr>
<td></td>
<td>▪ Investigated the importance of investor relations</td>
<td></td>
</tr>
</tbody>
</table>

Compiled from: Marston (1996), Marston and Straker (2001) and Petersen and Martin (1996)

Research methods and techniques represent the most concrete level of research methodology, according to Mouton (1998:37). Therefore, the research methods and techniques used in the studies of Marston (1996), Marston and Straker (2001) and Petersen and Martin (1996) are summarised separately in Table 6.4. Note that the methods and techniques used were very similar. The studies only differed in terms of sample size and response rate.
Table 6.4  A summary of the research methods and techniques used in three previous studies

<table>
<thead>
<tr>
<th>STUDY</th>
<th>SAMPLING DESIGN</th>
<th>DATA COLLECTION</th>
<th>DATA ANALYSIS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Petersen and Martin (1996)</td>
<td>▪ Target population: 250 largest nonbanking companies in Florida, USA</td>
<td>▪ Postal questionnaire survey</td>
<td>▪ Descriptive statistics</td>
</tr>
<tr>
<td></td>
<td>▪ Non-probability purposive sampling</td>
<td>▪ Response rate: 31%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>▪ Criterion: not stated</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Marston (1996)</td>
<td>▪ Target population: 500 largest UK companies</td>
<td>▪ Postal questionnaire survey</td>
<td>▪ Descriptive statistics</td>
</tr>
<tr>
<td></td>
<td>▪ Non-probability purposive sampling</td>
<td>▪ Response rate: 62%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>▪ Criterion: market capitalisation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Marston and Straker (2001)</td>
<td>▪ Target population: 80 largest European companies</td>
<td>▪ Postal questionnaire survey</td>
<td>▪ Descriptive statistics</td>
</tr>
<tr>
<td></td>
<td>▪ Non-probability purposive sampling</td>
<td>▪ Response rate: 59%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>▪ Criterion: market capitalisation</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Compiled from: Marston (1996), Marston and Straker (2001) and Petersen and Martin (1996)
The objectives of the three studies described above are similar to the objectives of this study. The emphasis of this study is, amongst other things, on the current approach to the management and organisation of financial communication. However, none of the three studies conducted previously have attempted to identify the shortcomings of the approaches reflected in the research results. Neither have they focused on the importance of financial communication with various stakeholder groups. The purpose of this study is therefore not to replicate any of the studies discussed above. Rather, a similar research strategy and design, and therefore similar methods and techniques, are used. These are discussed in detail in the remainder of this chapter.

6.4 Research strategy

As noted before, a particular research strategy is partly derived from what Mouton (1998:37) calls the methodological paradigm (qualitative or quantitative) that fits the research question. In addition, research strategy can also be described in terms of whether the research project is exploratory or formal, descriptive or causal.

6.4.1 Quantitative research

The debate between proponents of the qualitative and quantitative research paradigms is an old but unresolved one. Neuman (2000:16) and Mouton (1998:37) note that each is characterised by a certain logic or approach to social science, accompanied by collections of certain research methods. In Table 6.5, the views of Du Plooy (2001:82-84), Leedy (1997:106) and Neuman (2000:16), regarding the characteristics of qualitative and quantitative research, are synthesised. The differences between these paradigms are highlighted by referring to the purpose and nature of research, the type of reasoning used, methods of data collection and analysis and the way in which findings are communicated.
Table 6.5  Characteristics of qualitative and quantitative research

<table>
<thead>
<tr>
<th>QUALITATIVE RESEARCH</th>
<th>QUANTITATIVE RESEARCH</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PURPOSE</strong></td>
<td></td>
</tr>
<tr>
<td>▪ To describe and explain (behaviours, trends or relations)</td>
<td>▪ To explain and predict (quantities, degrees or relations)</td>
</tr>
<tr>
<td>▪ To explore and interpret</td>
<td>▪ To confirm and validate</td>
</tr>
<tr>
<td>▪ To build theory</td>
<td>▪ To test theory</td>
</tr>
<tr>
<td>▪ To explore areas characterised by no/limited prior research</td>
<td>▪ To generalise from a sample to a population</td>
</tr>
<tr>
<td>▪ Process-orientated</td>
<td>▪ Outcome-orientated</td>
</tr>
<tr>
<td>▪ Construct social reality</td>
<td>▪ Measure objective facts</td>
</tr>
<tr>
<td><strong>NATURE</strong></td>
<td></td>
</tr>
<tr>
<td>▪ Holistic</td>
<td>▪ Focused</td>
</tr>
<tr>
<td>▪ Unknown variables</td>
<td>▪ Known variables</td>
</tr>
<tr>
<td>▪ Flexible guidelines</td>
<td>▪ Established guidelines</td>
</tr>
<tr>
<td>▪ Emergent design</td>
<td>▪ Static design</td>
</tr>
<tr>
<td>▪ Context-bound</td>
<td>▪ Context-free</td>
</tr>
<tr>
<td>▪ Personal view/Values are present</td>
<td>▪ Detached view/Value free</td>
</tr>
<tr>
<td>▪ Authenticity is key</td>
<td>▪ Reliability is key</td>
</tr>
<tr>
<td><strong>DATA COLLECTION</strong></td>
<td></td>
</tr>
<tr>
<td>▪ Informative, small sample</td>
<td>▪ Representative, large sample</td>
</tr>
<tr>
<td>▪ Observations, interviews</td>
<td>▪ Standardised instruments (Surveys and experimental designs)</td>
</tr>
<tr>
<td><strong>REASONING</strong></td>
<td></td>
</tr>
<tr>
<td>▪ Usually inductive analysis</td>
<td>▪ Usually deductive analysis</td>
</tr>
<tr>
<td><strong>DATA ANALYSIS</strong></td>
<td></td>
</tr>
<tr>
<td>▪ Content analysis</td>
<td>▪ Descriptive and inferential statistics</td>
</tr>
<tr>
<td><strong>COMMUNICATION OF FINDINGS</strong></td>
<td></td>
</tr>
<tr>
<td>▪ Words</td>
<td>▪ Numbers</td>
</tr>
<tr>
<td>▪ Narratives, individual quotes</td>
<td>▪ Statistics, aggregated data</td>
</tr>
<tr>
<td>▪ Personal voice, literary style</td>
<td>▪ Formal voice, scientific style</td>
</tr>
</tbody>
</table>

Mouton (1998:38;40) notes that the qualitative and quantitative paradigms are seen to be incompatible, but concludes that there is not necessarily a “real” conflict between them. Neuman (2000:16) also remarks that there is much overlap between the type of data and style of research used in qualitative and quantitative research.

When one considers the characteristics of qualitative and quantitative research in Table 6.5, it seems as if qualitative research is more appropriate for the purposes of this study. In fact, a qualitative research strategy was initially contemplated. Research about the management and organisation of financial communication in South Africa is limited. An exploratory study (see the section that follows this one) warrants a qualitative approach. Qualitative research usually yields in-depth information.

On the other hand, Cooper and Schindler (2003:151) note that exploratory studies can use qualitative as well as quantitative techniques. The objectives of the empirical component of this study, for instance, is not to obtain in-depth information, but rather to gain a wide range of perspectives on the management and organisation of financial communication. Thus, a quantitative strategy, rather than a qualitative one, is used.

6.4.2 Exploratory research

According to Cooper and Schindler (2003:146) research studies can be classified as being exploratory or formal, depending on the degree of research question crystallisation. Exploratory studies are typically used when very little previous research has been conducted on a specific topic (Mouton, 1998:102). The objectives of exploratory studies therefore include collecting new data, developing hypotheses or questions for further research, clarifying concepts and establishing research priorities (Cooper & Schindler, 2003:146; Neuman, 2000:21). Exploratory research sets the tone for formal research, which is more systematic and extensive (Neuman, 2000:21).
Various authors have noted the lack of academic research in financial communication, especially in investor relations (Farragher et al., 1994:403; Marston, 1996:478; Marston & Straker, 2001:83; Wilson, 1980:10). Note the time span from 1980 to 2001 - it seems that little progress has been made in at least 21 years. It is also important to note that previous studies about the management and organisation of investor relations have been conducted from either an accounting, public relations or investor relations perspective, not from an interdisciplinary perspective.

One of the main objectives of this study is to describe the current approach to the management and organisation of financial communication, both from an investor relations perspective and an accounting perspective. In other words, an interdisciplinary approach is followed. A natural result of this is the identification of shortcomings of the current approach, in order to identify priorities for future research.

6.4.3 Descriptive research
The objectives of a research study determine whether it is descriptive or causal in nature (Cooper & Schindler, 2003:149). Descriptive research attempts to answer questions such as who, what, where, when or how much. Causal research on the other hand, focuses on relationships between events - answering the “why-question”.

As noted in the introduction of this chapter, the main objectives of this study are to describe the current approach to financial communication, and to develop a conceptual model for an inclusive and integrated approach to financial communication. An inclusive approach is understood as financial communication directed at a wide range of relevant stakeholders. An integrated approach relates to the management and organisation of financial communication. Therefore, the objectives of this study attempt to answers questions of “who” and “how”. The study is therefore descriptive.
6.5 Research design

Research design encompasses factors such as researcher control of variables, time dimension, research environment and participants’ perceptions (Cooper & Schindler, 2003:147). In the sections that follow, these factors are described, as they apply to this study.

6.5.1 Control of variables

According to Leedy (1997:189), an ex post facto research design aims to study a specific situation or phenomenon as it is. No attempt is made to manipulate any of the variables in the situation. Cooper and Schindler (2003:149) remark that researchers should avoid manipulating variables, by adhering strictly to sampling procedures. Otherwise bias will be introduced. This is in contrast to experimental designs, where variables are deliberately manipulated in order to observe cause and effect relationships. The main objective of this study is to describe the current approach to financial communication. It is therefore based on an ex post facto research design.

6.5.2 Time dimension

Time dimension refers to the time period over which a research project is conducted, and whether the study is repeated over intervals or not. A cross-sectional study is carried out only once and provides a “snapshot” view of a situation or phenomenon. A longitudinal study is one that is repeated over a certain period of time, in order to identify trends or track changes (Cooper & Schindler, 2003:149).

The objective of this study is to describe a current situation, not to observe trends or changes. Although future studies might be undertaken to establish whether changes have occurred in the approach to financial communication, the danger of bias exists when data is collected a second or third time from the same respondents. Therefore, a cross-sectional time dimension is appropriate for this study.
6.5.3 Research environment
Research can be undertaken either under actual environmental, laboratory or simulated conditions. Research undertaken in the actual environment is known as field research (Cooper & Schindler, 2003:150). This study is undertaken under actual environmental conditions and can therefore be classified as field research.

6.5.4 Perceptions of participants
Cooper and Schindler (2003:151) warn that when people involved in a research study perceive that research is being conducted, they might behave less naturally. Three levels of perception are identified. Participants might perceive 1) no deviations from everyday routines, 2) deviations, but as unrelated to the researcher, or 3) deviations as induced by the researcher. The last level is referred to as “modified routine”.

Du Plooy (2001:85) suggests that, when doing a cross-sectional study, the unobtrusiveness of the measuring instrument and/or the researcher’s behaviour can contribute to internal validity. However, in the case of questionnaire surveys, this is not possible. Respondents or subjects are aware that research is being conducted. It is therefore important to make provision for the possibility that subjects’ responses might have been influenced by this awareness, when analysing the data and discussing the results. A self-administered questionnaire was used in this study. Therefore, the level of respondents’ awareness can be described as “modified routine”.

6.6 Research methods and techniques
In this section the more concrete levels of research methodology are discussed. According to Mouton (1998:37), these include sampling, data collection and data analysis methods and techniques. Questionnaire design and the pilot test, which can be seen as part of the process of data collection, are discussed under separate headings.


6.6.1 Sampling design

A central component of research is the gathering of data about “something”. Sampling design refers to a series of decisions regarding the “something” that will be studied, as well as from what or whom data about this “something” will be obtained. In more scientific terms, sampling design involves the identification of the unit of analysis, the target population and sampling frame, as well as the appropriate sampling technique(s).

- **Unit of analysis**

  Mouton (1998:91) defines the unit of analysis as the “object” or “entity” being studied by researchers. He identifies seven broad types, namely individuals, organisations, institutions, collectives, social objects, social actions or events and interventions. The particular type of unit of analysis depends on the research topic and research questions (Neuman, 2000:132). However, the unit of analysis and the *data source* are easily confused. Mouton (1998:92) observes that in some cases the unit of analysis and data source are identical, while they differ in other cases. One way to distinguish between the two is to remember that the unit of analysis is that to which a researcher’s *conclusions* ought to apply, while the data source is that which has to be explored or investigated in order to gather information *about* the unit of analysis.

  The unit of analysis of this study is what Mouton (1998:48-49) refers to as formal organisations, defined as social units that co-ordinate the activities of their members, according to specific rules and duties. One might be tempted to think that individuals are the unit of analysis of this study. However, the unit of analysis is derived from the following research objective:
To use empirical research to establish whether a number of South African companies listed on the Johannesburg Stock Exchange (JSE):

- follow an *inclusive* (stakeholder) approach to financial communication;
- follow an *integrated* approach (in terms of management and organisation) to financial communication.

Formal organisations (listed companies in South Africa) are therefore the unit of analysis of this study, while individuals (directors and senior managers) are the *data sources*, as organisations cannot “speak for themselves”.

**Target population**

According to Mouton (1998:135), defining the population involves two steps: identification of the target population, and construction of the sampling frame. Du Plooy (2001:100) distinguishes between the population and the target population in the following way: the population is all possible units of analysis, while the target population is the population to which the findings will be generalised. Thus, the population for this study includes all formal organisations, while the target population only includes companies listed on the Johannesburg Stock Exchange (JSE).

It has been noted that the objective of this study is not to generalise the findings to the target population. Although the empirical component of the study is quantitative in nature, the study as a whole is exploratory in nature. This is not necessarily problematic in terms of the definition of the concept “target population”. For the purposes of this study, “target population” is understood as those units of analysis that are applicable in terms of the research problem and objectives.
Sampling frame

The sampling frame can be described as a demarcation of the target population. The sampling frame is the list of cases or elements from which the sample is actually drawn (Cooper & Schindler, 2003:188). Although the sampling frame should ideally include all members of the target population, it is not always practically possible. For example, existing or available lists of members of the target population might be outdated.

It has been noted that the target population for this study consists of companies listed on the JSE. The list used is the one compiled for the 2002 Financial Mail Special Survey of Top Companies. Companies on the list are ranked based on market capitalisation, as on the last trading day of February 2002 (Financial Mail, 2002:24). A company’s market capitalisation is calculated by multiplying the number of issued ordinary shares with the share price at a given point in time. Market capitalisation is an indication of the value that investors give to a company (Finansies & Tegniek, 2002:9).

The Financial Mail Special Survey is published annually at the end of June. Since the sampling frame for this study was constructed during February 2003, the more recent 2003 survey could not be used. For the purposes of this study, companies which have been delisted since the last trading day of February 2002 have been left out, while newly listed companies have not been included. Furthermore, companies that are listed on the JSE, but with head offices located in countries outside South Africa, have also been removed from the list. The rationale behind this decision is that the purpose of the empirical component of the study is to gain a truly South African perspective on the approach to financial communication. In order to increase the sample size to 300, companies ranked beyond 300, according to the Financial Mail survey, were included.
Sampling technique

Du Plooy (2001: 100) describes sampling as a rigorous procedure of selecting units of analysis from a larger population. There are several reasons why samples are drawn, rather than investigating the whole population (Cooper & Schindler, 2003:179). In the first place, it is usually cheaper and less time consuming to use a sample. Besides these economic advantages, the quality of a study can be improved, as the researcher has more control over data collection and analysis.

As with all the other components of a research design, the choice of a specific sampling technique is guided by the research problem and objectives. The first step is to decide whether to use probability or nonprobability sampling. In the case of probability sampling, each member of the population has a known nonzero chance of being selected (Cooper & Schindler, 2003:183). Nonprobability sampling, on the other hand, is subjective and each member of the population does not have a nonzero chance of being included. If the objective of a research project is to generalise the findings to the population, probability sampling is the logical choice. However, if the study is exploratory in nature, with less concern about the sample’s representativeness of the population, nonprobability sampling is appropriate. The next step is to select a specific probability or nonprobability sampling technique.

As this study is exploratory in nature, the emphasis is not so much on generalisation, but rather on gathering preliminary information about how a number of South African companies approach financial communication. Nonprobability sampling has therefore been a natural choice. Purposive sampling, and more specifically judgement sampling, has been chosen as sampling technique. By using purposive sampling, the researcher selects elements of the population with a specific purpose in mind. These elements, or cases, are usually especially informative (Neuman, 2000:198). Furthermore, using judgement sampling, the researcher selects sample members in order to conform to a certain criterion (Cooper & Schindler, 2003:201).
In a 1991 study, Marston (1996) investigated how the top 500 companies in the United Kingdom (ranked by market capitalisation), organised the investor relations function. Market capitalisation was identified as the most important explanatory variable for the appointment of an Investor Relations Officer (Marston, 1996:485). A similar study conducted by Marston and Straker (2001:84) also used market capitalisation as criterion for the inclusion of the top 80 European companies in the sample. The objectives of this study are similar to the studies conducted by Marston (1996) and Marston and Straker (2001). Therefore, the sample for this study consists of the 300 largest companies listed on the JSE, with market capitalisation as criterion for selection.

The sample size constitutes roughly 50% of the population (all companies listed on the JSE). The reason why a large sample has been drawn is that the data collection method used in this study (questionnaire survey) is characterised by low response rates. Although the study is exploratory, an attempt has been made to obtain as wide a range of responses as possible. The depth of information that one can gather by using questionnaires is limited.

6.6.2 Questionnaire design
In Chapter 1, the conceptual framework that forms the basis of this study is set out. The framework includes one concept and two related constructs. The main concept underlying this study is the approach to financial communication. This concept consists of two constructs, namely an inclusive approach and an integrated approach. An inclusive approach is operationalised as financial communication directed at a wide range of relevant stakeholders. An integrated approach is operationalised in terms of the management and organisation of financial communication. This framework is depicted in Figure 6.2.
In the sections that follow, an explanation is provided as to how this conceptual framework guided the formulation of questions in developing the questionnaire used as measuring instrument. Please note that the discussion that follows applies to the final version of the questionnaire. In Section 6.6.3, the pilot test and subsequent changes to the original questionnaire are discussed. See Appendix 3 for a printed version of the final questionnaire.

- **Formulation of questions**
  Although the questionnaire has not been formally divided into different sections, questions derived from a particular construct have been grouped together. The questionnaire consists of 19 questions. The way in which questions have been grouped is explained in Table 6.6.
Table 6.6  Grouping of questions according to constructs

<table>
<thead>
<tr>
<th>CONSTRUCT</th>
<th>QUESTION</th>
<th>PURPOSE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Respondent details - not related to any of the constructs</td>
<td>Q1 - Q2</td>
<td>To record respondent details</td>
</tr>
<tr>
<td>Relates to Construct 2 - Integrated approach in terms of management of financial communication</td>
<td>Q3 - Q6</td>
<td>To determine the extent to which the most senior public relations / corporate communication manager assumes a strategic position and role in the organisation</td>
</tr>
<tr>
<td>Construct 1 - Inclusive approach to financial communication</td>
<td>Q7 - Q10</td>
<td>To determine whether there are indications of an inclusive approach to financial communication</td>
</tr>
<tr>
<td>Construct 2 - Integrated approach in terms of organisation of financial communication</td>
<td>Q11-Q14</td>
<td>To determine where responsibility for financial communication is located in the organisational hierarchy</td>
</tr>
<tr>
<td>Construct 2 - Integrated approach in terms of management of financial communication</td>
<td>Q15 - Q18</td>
<td>To determine the roles of the most senior financial manager, most senior public relations / corporate communication manager and consultants in the management of financial communication</td>
</tr>
<tr>
<td>Not related to any of the constructs</td>
<td>Q19</td>
<td>To provide respondents with the opportunity to request a research report</td>
</tr>
</tbody>
</table>

**Questions 1 and 2**

The purpose of Questions 1 and 2 is to record the company name and the respondent’s position in the company. Although the names of companies are kept anonymous when reporting the results, this question has been included to enable the researcher to keep track of who has responded and who has not. The question regarding the respondent’s position in the company is included,
because during the data analysis and interpretation stage, it is important to take respondents’ background and concomitant perceptions into account.

Questions 3, 4, 5 & 6

In Chapter 2 it has been noted that, in most cases, the Financial Director or Manager assumes responsibility for investor relations (read financial communication). The Public Relations Manager plays a limited, or no role at all in financial communication. A major shortcoming of this approach to financial communication is that it is primarily directed at the financial community. In Chapter 5 it is argued that the only way to remedy this shortcoming, is to bring the public relations function (and its manager) back into the financial communication picture.

Within this context, the purpose of questions 3, 4, 5 and 6 is to determine to what extent the most senior public relations or corporate communication manager (from now on referred to as the most senior communication manager) assumes a strategic position and role in a company. For example, Question 4 investigates the level of seniority of this person - is he or she a member of the Board of Directors, or not? The purpose of Question 6 is to determine to what extent does the most senior communication manager assume the roles of strategist, manager or technician, as described by Steyn and Puth (2000:20-21). Very briefly, the role of the strategist is that of boundary spanner, determining the consequences of a company’s strategies and policies on its relationships with various stakeholders. Information gathered serves as input in a company’s strategic decision-making process. The role of the manager involves the development of a corporate communication strategy (deciding what should be communicated to stakeholders), while the technician role involves the implementation of communication plans and campaigns.
The reasoning behind the inclusion of these questions is that, if the public relations practitioner does have a strategically important position and role in a company, chances are that he or she will be actively involved in a company’s financial communication efforts. In analysing the data, the possibility of a relationship between the strategic position and role of the most senior communication manager and his or her involvement in financial communication efforts can be investigated.

**Questions 7, 8, 9 and 10**

In Chapter 5, financial communication process is described in terms of an inclusive approach - an approach that takes into account the financial information needs of a broader range of stakeholders, than merely those belonging to the financial community. However, this definition is based on theory, not actual practice. Hence, the decision to determine whether there are indications of an inclusive approach to financial communication in practice, and the inclusion of Construct 1 in the conceptual framework of this study.

In Question 7, respondents are asked to provide their own definition of financial communication. Question 8 investigates respondents’ views regarding the importance of engaging in financial communication with a broad range of stakeholders. The purpose of Questions 9 and 10 is to determine whether respondents view disclosure in terms of statutory and JSE requirements, as adequate to meet the financial information needs of stakeholders. Responses to these questions will give an indication of how inclusive the current approach to financial communication is in practice.

**Questions 11, 12, 13, 14 and 15**

These questions are derived from Construct 2 - integrated approach to financial communication (in terms of organisation). Question 11 is an introductory question with the purpose of determining whether a particular department or a
cross-functional team takes responsibility for financial communication. If respondents choose the “separate department” or “cross-functional team” options, they are directed to follow-up questions (Questions 12-15). These follow-up questions investigate the nature of the “separate department” and “cross-functional team”. None of the other options, for example “Financial department”, “Public Relations department” or “Marketing department”, require follow-up questions. Respondents are thus directed to Question 16.

**Questions 16-18**

This study concentrates on two main role players in financial communication: accounting professionals (or Financial Directors/Managers) and public relations practitioners. This relates to Construct 2 - integrated approach to financial communication (in terms of management). However, in reality, there are many other role players, including external consultants. Therefore, Questions 16, 17 and 18 consist of the same seven items - aspects of the financial communication process, including strategic, managerial and technical responsibilities (see the discussion of Questions 3,4,5 and 6). In Question 16, respondents have to indicate to what extent does the most senior financial manager take responsibility for these steps. Question 17 applies to the most senior public relations/corporate communication manager, while Question 18 applies to consultants.

**Question 19**

This question is merely administrative in nature. Respondents have the opportunity to indicate whether they wish to receive a report of the research results.

Note that the term “investor relations” is never used in the questionnaire. This is done to prevent possible bias. The term “investor relations” can hold the connotation of a narrow focus on investors (in the financial sense) alone. One of the main objectives of this study is to determine whether companies in South Africa
follow a narrow or a broad (inclusive) approach to financial communication. The term “financial communication” cannot be directly linked to accounting, public relations or investor relations. It must be kept in mind though, that the term might be interpreted differently, depending on who completes the questionnaire - an accounting, public relations or investor relations specialist.

- **Levels of measurement**

Du Plooy (2001:117) offers a very straightforward definition of measurement: it involves the assignment of numerals to variables that are being studied. Cooper and Schindler (2003:221) add that assignment of these numbers is done in accordance with a set of rules. By assigning numbers to variables, people can observe what is otherwise invisible. Neuman (2000:157) refers to the extension of the human senses.

Four levels of measurement can be identified, namely nominal, ordinal, interval and ratio. One can distinguish between these levels according to four characteristics, namely classification, order, distance and origin (Cooper & Schindler, 2003:223). Nominal measurement is the most basic (and weakest) in terms of these characteristics - it only classifies data according to mutually exclusive and collectively exhaustive categories. According to Du Plooy (2001:118), nominal measurement is appropriate for the measurement of discrete variables. Ordinal measurement goes one step further by adding an indication of order to the classification of data. In other words, variables are ranked by means of numerals to indicate differences between them. However, ordinal measurement does not indicate how much variables differ from each other - these differences might be unequal or unknown (Du Plooy, 2001:120). The interval level of measurement adds the equality of interval (or distance) characteristic to measurement, while the ratio level incorporates all four characteristics.
It has already been noted that the purpose of this study is descriptive in nature - the aim is to answer questions of “who” and “how”. Therefore, nominal measurement is used in Questions 3, 4, 5, 11, 13, 14, 15 and 19. However, to add more depth to the data collected, interval measurement is used in Questions 6, 8, 9, 16, 17 and 18. In these questions, respondents have to indicate degrees of importance or extent. Questions 7, 10 and 12 are open-ended questions.

### Measurement scales

Cooper and Schindler (2003:25) distinguish between rating scales, ranking scales and categorisation scales. In this study, various types of rating scales have been used in the construction of questionnaire items. These include simple category scales, multiple choice single-response scales, multiple choice multiple-response scales and multiple rating list scales. Although the scales used in similar studies have been studied, the emphasis of this particular study does not allow for exact replication. Therefore all of the scales used in the questionnaire are arbitrary - they have been custom-designed for this study.

Multiple choice, single-response scales are used in Questions 3, 4, 5, 11, 13 and 15. A multiple choice, multi-response scale (also known as a checklist) is used in Question 14. A simple category scale is used in Question 19 - respondents can either choose “Yes please” or “No thank you”. These scales use the nominal level of measurement.

Multiple rating list scales are used in Questions 6, 8, 16, 17 and 18. This type of scale is an example of multidimensional scaling, which recognises that an object or phenomenon can be described in terms of more than one dimension (Cooper & Schindler, 2003:251). Question 9, on the other hand, uses unidimensional scaling. Seven scale points have been used in these particular scales. According to Cooper and Schindler (2003:252) the use of three or five scale points is common, but seven or more points might produce greater sensitivity of measurement.
Format of the questionnaire

It was decided to distribute an electronic (Internet-based) version of the questionnaire, rather than a paper-based version. Electronic versions hold several advantages. In the first place, it speeds up questionnaire distribution and return to a considerable extent. Secondly, colour and graphics can be used to make the questionnaire visually more appealing. Thirdly, it is an easy and convenient way for respondents to complete a questionnaire. Respondents in this study are senior executives in large companies and are therefore sophisticated and highly literate users of computer technology. In the fourth place, responses are received back (via e-mail) in coded format and can easily be imported into a file of a statistical package such as SPSS.

However, there are also a number of potential pitfalls associated with the use of electronic versions. In the first place, respondents need to have access to Internet facilities and be computer literate. Secondly, the Internet is not always reliable, and respondents might experience problems in accessing the web page or submitting the questionnaire. Unfortunately, a researcher does not have any control over this. Furthermore, using basic html programming does not provide the possibility of data encryption and security. There are, however, specialised software that can be used to design an Internet-based questionnaire, as well as manage the distribution and data capturing process.

Initially, such a programme (PHPESP) was used, but was found to be extremely limited in terms of the visual design of the questionnaire. No colour, background or graphics could be used, and one had to scroll from one side of the screen to the other to read long sentences. It was therefore decided to rather use html-format. A single web page, containing the questionnaire, was created by a member of Unisa’s Department of Computer Services, and hosted on one of Unisa’s servers (Otter).
Colour and graphics were used (sparingly) to create a professional look. A light grey and white pattern of R1-coins was used as background. Black was used as the main font colour, while a dark red colour was used for the caption of the questionnaire, asterisks, the thank you note at the end and to highlight important words and directions. “Radio buttons” were used to ensure that respondents could only select one option for each item. The moment a respondent clicked on another option for the same item, the previous selection was automatically cleared. One exception is Question 14, where “check boxes” were used to allow respondents to choose more than one option. Text boxes were used for open-ended questions and where respondents had to type in details when choosing the “Other” option. The size of the text boxes (in terms of the number of characters allowed) depended on the nature of the open-ended questions.

Clear directions on how to complete the questionnaire were given right at the top of the web page, as well as in between items. Respondents were also given the option to reset (clear) the questionnaire and complete it again. When a respondent clicked on “submit”, a warning about the lack of security appeared on screen, giving the respondent the choice to proceed or cancel. If the respondent chose to proceed, an e-mail, containing the coded inputs (“answers”) was automatically sent to the researcher.

6.6.3 Pilot test
According to Cooper and Schindler (2003:86), one can conduct a pilot test to detect weaknesses in research design and instrumentation. Some pilot tests are restricted to data collection alone. In that instance, the inputs of colleagues, respondent surrogates, or actual respondents can be used to refine a measuring instrument.

A pilot test was conducted during June 2003. As a first phase, the expert opinions of two senior colleagues regarding the content and format of the questionnaire were obtained. Minor changes were made to the wording of the questions using multiple
rating list scales. As a second phase, two other colleagues and two friends were asked to access the questionnaire web site, complete the questionnaire with “dummy” answers and submit it. In other words, surrogate respondents were used. This was done to identify any technical problems in the html-based process of completing and submitting the questionnaire.

In the third phase of the pilot test, questionnaires were sent to the Chief Executive Officers or Managing Directors of 15 of the companies included in the sample of 300. These companies were selected from the 15 largest sectors of the JSE. On 10 June 2003, e-mails, explaining the purpose of the research and containing the URL of the questionnaire web site, were sent out. Three responses were received within a week. Reminders were sent on 18 June 2003, but unfortunately no additional responses were received.

Small changes were made to the original questionnaire. One question, Question 3, was left out. The purpose of the question was to determine how important financial, social and environmental performance is to companies. All three respondents rated all three dimensions as highly important (“7” on the seven point scale). It was immediately realised that respondents in the actual survey will probably do the same. The reason for this is that the importance of the “triple bottom line” is emphasised in the 2002 King Report of Corporate Governance, and companies listed on the JSE have to adhere to the principles of the report. The initial motivation behind the inclusion of this question was to determine whether companies in South Africa follow an inclusive stakeholder approach. Based on the results of the pilot test, it was decided to rather include two new questions that test respondents’ perceptions of the narrow focus of financial disclosure (see Questions 9 and 10 in the final questionnaire - Appendix 3). It was also decided to move Question 17 in the original questionnaire and group it with the other questions derived from Construct 1 - inclusive approach to financial communication. As a result, various questions were renumbered.
6.6.4 Data collection

Petersen and Martin (1994:4) conducted a survey amongst the *Chief Executive Officers* of the 250 largest non-banking companies in Florida, USA. The purpose of the research project was to investigate CEO perceptions of the investor relations function. A 31% response rate was achieved. The decision to survey CEOs was based on the fact that the CEO ultimately determines how a company’s various functions are organised.

Encouraged by the high response rate (at least in terms of questionnaire surveys), it was initially decided to follow the same strategy when collecting data in this study. However, during the actual process, it became apparent that this strategy would have to be adapted. The reasons for this will become apparent in the sections that follow. The data collection procedure used in this study consisted of three main activities, namely 1) database compilation, 2) distribution of the questionnaire and 3) recording of data.

- **Compiling a database**

  Successful data collection depends on a reliable database. After the sampling frame was constructed in February 2003, the process of compiling a database was started. The first step was to compile an MS Excel spreadsheet, with the names, telephone numbers and web site addresses of the 300 companies included in the sampling frame. This information was obtained from the McGregor’s Securities Exchange Digest for the first semester of 2003. This publication also provides the names of the Board of Directors of each company listed on the JSE and usually indicates who is the Chief Executive Officer, Managing Director, Executive Chairman, Financial Director and Company Secretary. In most of the cases an e-mail address of either the Company Secretary or the Information Helpdesk is provided.

  As a second step, the web sites of the companies in the sampling frame were visited to obtain the specific contact details of respondents. However, not all of these companies have web sites. Furthermore, some of the web sites are poorly
constructed and provide limited or no information. This step proved to be quite futile, although contact details of Financial Directors, Investor Relations Managers and Public Relations/Corporate Communication Managers that were available, were recorded.

The only other alternative that remained was to contact the head offices of the companies telephonically and ask for the information. Although this strategy was time consuming, it yielded much better results. During February and March 2003 telephonic conversations were conducted mostly with the personal assistants of Chief Executive Officers and Managing Directors. A number of personal assistants immediately declined to participate in the study on behalf of the CEO or MD. Others refused to provide any information. However, a large number were cooperative and at least provided their own e-mail addresses, if company policy prevented them from providing the e-mail address of the CEO or MD. In some cases, the e-mail address of the Financial Director was given. During the course of this process, it was therefore decided to ask for the e-mail address of the Financial Director, if the e-mail address of the CEO or MD could not be obtained. Where contact details were still missing, the information contained in the McGregor’s Securities Exchange Digest was used (e-mail addresses of the Company Secretary or Information Helpdesk).

- **Distribution of questionnaires**

Due to the variety of respondents whose contact details were obtained, the initial idea of only obtaining the inputs of CEOs or MDs had to be discarded. It was therefore decided to distribute the questionnaires in phases. The objective of the first phase was to collect data from as many CEOs and MDs as possible. This phase was implemented during the second week of July 2003. E-mails were sent either directly, or via personal assistants, to the Chief Executive Officers or Managing Directors whose addresses had been recorded. These e-mails served as cover letters, but also included the URL of the questionnaire web site (respondents only needed to click on it to access the web site) and an explanation of the process
behind submission of responses. The e-mails were personalised, addressing a particular person and referring to his or her particular company. This was done manually - in other words, e-mails were sent out individually.

Executives are extremely busy and do not have time to read lengthy e-mails. The most essential information was therefore placed right at the beginning of the e-mail message. The subject line and the introductory paragraphs were formulated to immediately grab respondents’ attention. The research project was introduced immediately after the introductory paragraph. See Appendix 1 for an example of the e-mail message sent to CEOs and MDs.

The response (in terms of submitted questionnaires) was extremely poor. However, quite a number of replies to the e-mail messages were received. In most cases, the personal assistants of the CEOs and MDs replied and either declined, or indicated that the message was forwarded to the person responsible for the company’s financial communication efforts (either the Financial, Investor Relations, Public Relations or Corporate Communication Executive). Reminders were sent to those respondents from whom no response was received, two weeks after the initial e-mail messages were sent. By the end of July 2003, questionnaires were being received from respondents other than CEOs or MDs. It was therefore decided to implement the second phase of questionnaire distribution. E-mail messages, similar to those sent to the CEOs and MDs, were sent to the Financial Directors of companies from which no response had been received, and whose contact details were obtained. The response was slightly better, although the same trend as in the case of CEOs and MDs were observed. A small number completed and submitted questionnaires, while others declined or forwarded the e-mail message to other members of staff.

In a final attempt to increase the response rate, e-mail messages were sent to the Company Secretaries or Information Helpdesk of companies from which no response had been received. Recipients were requested to forward the message to
the person responsible for their company’s financial communication efforts. This strategy was more successful in terms of the number of responses received.

However, respondents varied significantly in terms of level of seniority and affiliation to functional sections or departments. This situation holds advantages and disadvantages. The advantage is that the data collected reflects a wide array of perspectives. It has already been noted that the objective of the empirical component of this study is to obtain a wide range of perspectives. However, the disadvantage is that one will not be able to make any definite conclusions from the data. The fact that the respondents varied in terms of background and knowledge will have to be taken into account when analysing the data.

- **Recording of data**
  The moment a respondent completed a questionnaire and clicked on “submit”, an e-mail, containing the responses to the questions, was automatically generated and sent to the researcher. See Appendix 4 for an example of such an e-mail. The major advantage of this procedure was that the responses to the close-ended questions were received in coded format. This made the recording of the data much easier. To prevent any loss of data, the contents of all the e-mails were copied into WordPerfect files and saved. The statistical software package, SPSS 11.0 was used to create a data file and the coded responses to the close-ended questions were recorded manually. SPSS makes it possible to assign discrete values to missing responses. Therefore, missing responses were coded with the discrete value of “11”. There were also instances where respondents did not have to answer particular questions, based on their responses to previous questions. In these cases, missing responses were coded with the discrete value of “12”, and were labelled as “Not applicable”.

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There were two open-ended questions in the questionnaire. Responses to these questions could not be precoded, but were recorded verbatim in the e-mails received from respondents. There were also nine close-ended questions that provided the option to choose “Other” and specify. This option was used extensively in Question 4. It was therefore decided to code the responses and record them in the SPSS data file for further analysis. The “Other” option was used to a limited extent in the other eight questions. Responses were therefore not recorded in the SPSS data file, as they did not warrant statistical analysis.

6.6.5 Data analysis
Open-ended and close-ended questions require different types of data analysis. The different methods and techniques that were used in this study are discussed in the sections below.

- Open-ended questions
  According to Cooper and Schindler (2003:460), content analysis can be used to code and analyse responses to open-ended questions. Neuman (2000:293) describes content analysis as an objective and systematic counting procedure to describe the symbolic content of text in quantitative terms. Cooper and Schindler (2003:460-461) refer to the manifest and latent content of messages. Manifest content is the visible, surface content of a message, while latent content is the underlying, implicit meaning of a message (Neuman, 2000:295-296).

  The first step in content analysis is to decide which units will be used to analyse the message. Different types of units can be used. Syntactical units are words, phrases, sentences or paragraphs. Examples of referential units are objects, events or persons referred to in the text. Propositional units include questions, answers, statements, assertions or arguments, while thematic units are repeating patterns of ideas or issues (Cooper & Schindler, 2003:461; Du Plooy, 2001:191).
Content analysis was used to code and analyse the responses to Question 7 and Question 10. While reading through the responses, various syntactical units were identified. These units were then used to identify specific categories. Some of the categories only contained one or two responses. These were not statistically analysed, but were discussed in narrative format. For example, nine categories were used to code the responses to Question 7. However, the responses to only one category justified statistical analysis and were therefore recorded in the SPSS data file. The results will be reported by means of a frequency table.

- **Close-ended questions**
  Various types of measurement scales were used in the close-ended questions. The questions that used multiple choice single-response scales and multiple choice multi-response scales (Questions 3, 4, 5, 11, 14 and 15), yielded nominal data. The only type of statistical analysis that can be performed on nominal data is frequency calculations. Thus, when reporting the results of these questions, frequency tables will be used. Results will be presented visually by means of bar and pie charts.

In Question 14 respondents were requested to select all the appropriate options. The implication of this is that a large number of different combinations could be selected. However, the different combinations are not as important for the purposes of this study. The main goal of this question was to determine which functions are typically included in cross-functional teams responsible for financial communication. It was therefore decided not to record all the different combinations of options, but to calculate how many times each option was selected – in other words frequencies. The results will be presented by means of a bar chart.

Multiple rating list scales were used in Questions 6, 8, 9, 16, 17 and 18. Descriptive statistics will be used to calculate the mean and standard deviation values for each variable. According to Cooper and Schindler (2003:474), the mean is a measure of location or central tendency. The measurement scales used in the questionnaire
consisted of seven points. The mean values for each variable will therefore indicate whether most responses are located to the left or to the right of the centre of the scale. However, it must be remembered that the mean is an average, and does not indicate how individual responses are spread across the seven point scale.

This limitation is addressed by the most commonly used measure of spread, the standard deviation. According to Neuman (2000:320), the standard deviation is used for comparison purposes, as it is of limited use on its own. When compared with the mean calculated for each variable, the researcher can establish how far away from the average the data values are (Cooper & Schindler, 2003:475). In other words, a relatively high standard deviation indicates that the data values are widely dispersed, while a relatively low value indicates that the data values are located near to the mean. In the case of a seven point scale, standard deviation values of 0 - 1,5 would be considered as relatively low, while values above 1,5 would be considered as relatively high. A standard deviation value of 2,5 - 3 would indicate that respondents varied significantly in their opinions regarding a specific variable. Frequency calculations for data values will only be used in the case of very high standard deviation values, or where the position/functional affiliation of respondents might have affected the results.

The mean values for the variables in each question will be presented graphically by means of bar charts. Identical variables were used in Questions 16, 17 and 18. Besides drawing bar charts for each question, the mean values of the three questions will be compared by drawing separate bar charts for each variable.

6.7 Conclusion

This chapter introduces the empirical component of the study. Content-wise, it has therefore deviated quite significantly from the major themes in the previous chapters (the theoretical component). However, this deviation is necessary to set the scene for the discussions in Chapters 7 and 8 (research findings). In order to make sense of the
findings of a research project, the reader needs to be fully aware of the research strategy, design, methods and techniques used to obtain the results. For example, the fact that this study is exploratory in nature must be constantly borne in mind when assessing the results.

In the discussions of the research findings that follow, the major themes of the theoretical component emerge again. In Chapter 7, the findings related to the construct “inclusive approach to financial communication” are reported and interpreted in terms of relevant theory. In similar fashion, the results related to the construct “integrated approach to financial communication” are reported and interpreted in Chapter 8.
Research objective:
5. To use empirical research to establish whether a number of South African companies listed on the Johannesburg Stock Exchange (JSE):
   - follow an inclusive (stakeholder) approach to financial communication
CHAPTER 7
Research findings - an inclusive approach to financial communication

It is therefore more important than ever to keep open the channels of communication between science and society. - Prigogine

7.1 Introduction
In Chapter 1, the conceptual framework underlying this study is set out. The framework consists of one concept (approach to financial communication) and two related constructs (inclusive approach and integrated approach to financial communication). The purpose of this chapter is to report the findings of the empirical component of the study, related to the first construct (inclusive approach). Findings related to the second construct (integrated approach) are reported in Chapter 8. In terms of the study as a whole, the content of this chapter is guided by the following objective:

5. To use empirical research to establish whether a number of South African companies listed on the Johannesburg Stock Exchange (JSE):
   - follow an inclusive (stakeholder) approach to financial communication

The chapter consists of two main sections. In the first section, background information that is needed to put the research results into context, is provided. This includes information about the response rate, the profile of the companies surveyed and the profile of the respondents (individuals). In the second section, findings related to the first construct (inclusive approach to financial communication) are reported. The chapter concludes with a number of general conclusions that can be drawn from the results.
7.2 General background

Every research project is characterised by a certain research strategy and design, as well as specific research methods and techniques. As a result, every research project is set within a particular context. It is important to always take this context into account when analysing the data obtained and interpreting the results. For example, this study is exploratory in nature, but nevertheless uses a quantitative research strategy. However, the purpose is not to generalise the findings to the population, but to gather a wide range of perspectives on financial communication. Furthermore, information about the sampling frame and response rate, as well as the profile of the units of analysis and data sources, help to build the context of the study.

7.2.1 Response rate

The sampling frame for this study consisted of 300 South African companies, listed on the JSE. The sampling frame is based on the 2002 Financial Mail Special Survey of Top Companies. The 300 largest companies, based on market capitalisation, were included in the sampling frame. The following companies were excluded from the list:

- companies with headquarters outside South Africa; and
- companies listed or delisted after the last trading day of February 2002.

Companies ranked beyond 300 were therefore included to ensure that the sampling frame consisted of 300 companies.

Questionnaires were sent to all 300 companies in the sampling frame during July and August 2003. Forty two responses were received, of which 38 could be used. This constitutes a response rate of 12.7%. The three responses received during the pilot test are included in the total of 38. There are two reasons for this. In the first place, only minor changes were made to the questionnaire after the pilot test. Secondly, one of the companies was ranked in the Top 50, according to the Financial Mail Special Survey. Another was ranked between 100 and 150. It was therefore important to use the data obtained from these companies.
Unfortunately, the data of four respondents was lost, as the e-mail servers of their companies did not allow for data, submitted by means of the html-based questionnaire, to be transmitted via e-mail. The researcher only received blank e-mails from these respondents. The problem was immediately followed up, by sending the questionnaire in MS Word format to these respondents. However, none of the respondents were willing to complete the questionnaire again. To prevent this problem from occurring again, the MS Word format questionnaire was attached to all subsequent e-mails that were sent to respondents.

### 7.2.2 Profile of companies

Companies included in the sampling frame are ranked according to market capitalisation. Table 7.1 provides a distribution, according to ranking, of the companies from which questionnaires were received.

**Table 7.1 Distribution of companies in terms of ranking (based on market capitalisation)**

<table>
<thead>
<tr>
<th>RANKING INTERVAL</th>
<th>FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-50</td>
<td>14</td>
<td>36,8%</td>
</tr>
<tr>
<td>51-100</td>
<td>9</td>
<td>23,7%</td>
</tr>
<tr>
<td>101-150</td>
<td>3</td>
<td>7,9%</td>
</tr>
<tr>
<td>151-200</td>
<td>5</td>
<td>13,2%</td>
</tr>
<tr>
<td>201-250</td>
<td>5</td>
<td>13,2%</td>
</tr>
<tr>
<td>251-300</td>
<td>1</td>
<td>2,6%</td>
</tr>
<tr>
<td>301-350</td>
<td>1</td>
<td>2,6%</td>
</tr>
<tr>
<td><strong>n = 38</strong></td>
<td></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

The fact that 36,8% of the companies from which responses were received are “market heavy weights”, is very positive. Actually, 60,5% of the companies are ranked amongst the Top 100. Due to the size of their market capital, they are likely to view financial communication as very important.
Companies listed on the JSE are grouped according to 78 sectors. In some cases, a sector only consists of one or two companies. In the Business Day (2001:16), a newspaper distributed in Gauteng, these sectors are grouped into six main categories, namely 1) Mining Resources, 2) Non-Mining Resources, 3) Financial, 4) Insurance, 5) Industrial and 6) Real Estate. Table 7.2 represents the distribution of companies according to these groups. No responses were received from companies in the Real Estate group.

Table 7.2 Distribution of companies in terms of sector

<table>
<thead>
<tr>
<th>SECTOR</th>
<th>FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mining resources</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Gold</td>
<td>2</td>
<td>7,9</td>
</tr>
<tr>
<td>• Mining Holdings &amp; Houses</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Non-mining resources</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Chemicals, oils &amp; plastics</td>
<td>1</td>
<td>5,3</td>
</tr>
<tr>
<td>• Steel</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Financial</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Banks</td>
<td>2</td>
<td>13,2</td>
</tr>
<tr>
<td>• Financial services</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Insurance</td>
<td>3</td>
<td>7,9</td>
</tr>
<tr>
<td>Industrial</td>
<td>25</td>
<td>65,7</td>
</tr>
<tr>
<td>• Food</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>• Retail</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>• Information technology</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>• Telecommunications</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>• Education &amp; staffing</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>• Other</td>
<td>8</td>
<td></td>
</tr>
</tbody>
</table>

In the Industrial group, single responses were received in eight sectors (referred to as “Other” in Table 7.2, namely Transport, Furniture and Appliances, Hotels and Leisure, Healthcare, Electronics and Electrical, Packaging and Printing, Beverages and Diversified Industrials. The Industrial group is by far the largest

n = 38 100
group. It is therefore not surprising that the most questionnaires were received from this group.

It is evident from Table 7.2 that responses were received from a wide range of sectors. Thus, one of the goals of this study - to gather a wide range of perspectives - has been achieved in part. It stands to reason that companies in different sectors will probably not approach financial communication in exactly the same way. For example, companies in the Banking sector have to deal with different issues than companies in the Retail sector.

### 7.2.3 Profile of respondents

The decision to collect data in phases, and from respondents from different organisational functions, is explained in Chapter 6. During the first phase, questionnaires were sent to Chief Executive Officers (CEOs) and Managing Directors (MDs). In the second phase questionnaires were sent to Financial Directors. During the final phase, e-mails were sent to Company Secretaries or the Information Helpdesk, requesting recipients to forward the message to the person in charge of their company's financial communication efforts. See Appendix 1 and 2 for examples of these e-mails.

Responses were received from managers of various departments and of varying degrees of seniority. Table 7.3 depicts the distribution of respondents in terms of their position and functional affiliation in the company.
### Table 7.3 Distribution of respondents in terms of position/functional affiliation

<table>
<thead>
<tr>
<th>POSITION</th>
<th>FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Top Management</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Executive Chairman</td>
<td>1</td>
<td>26,3</td>
</tr>
<tr>
<td>Managing Director</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Chief Executive Officer</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Director (not specified)</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Executive Assistant to CEO</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td><strong>Financial</strong></td>
<td>13</td>
<td>34,2</td>
</tr>
<tr>
<td>Financial Director</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td>Financial Manager</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>General Manager: Finance</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>General Manager: Corporate Finance &amp; Head of IR</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Group Accountant</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td><strong>Communication</strong></td>
<td>7</td>
<td>18,4</td>
</tr>
<tr>
<td>Director: Corporate Communication</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Head: Corporate Communication</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Communication Manager</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Public Relations &amp; Communication Manager</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Public Relations Officer</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>General Manager: Grp Comm. &amp; Public Affairs</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td><strong>Investor Relations</strong></td>
<td>5</td>
<td>13,2</td>
</tr>
<tr>
<td>Senior Manager: Investor Relations</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Manager: Investor Relations</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>General Manager: Investor Relations</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td><strong>Marketing</strong></td>
<td>3</td>
<td>7,9</td>
</tr>
<tr>
<td>Head: Group Marketing &amp; Communication</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Director: Marketing</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Marketing Coordinator</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td><strong>n = 38</strong></td>
<td></td>
<td>100</td>
</tr>
</tbody>
</table>

*Univerrrsity  ooff  PPrreetorria  eettdd  --  SScchhoooonrraaaadd,,  NN  ((22000044))
As with the profile of companies, questionnaires were received from diverse groups of respondents. This means that a broad range of views was obtained, which is one of the goals of this study. In contrast to more conventional exploratory research, this study aims to establish a broad framework within which future research can be conducted. The purpose is neither to obtain in-depth information, nor to generalise the findings to the population (as in the case of formal, quantitative research).

7.3 Findings regarding an inclusive approach to financial communication

The questionnaire consisted of 19 questions (see Appendix 3). The first two questions recorded respondent and company details, while the last question provided respondents with the opportunity to request a report of the research results. Of the remaining 16 questions, four were used to determine whether there are indications of an inclusive approach to financial communication (Questions 7, 8, 9 and 10). In Question 7 (an open-ended question), respondents were asked to provide a definition of financial communication in their own words. In Question 8, respondents had to indicate on a seven point scale how important, or unimportant, it is to engage in financial communication with various stakeholder groups. Question 9 investigated whether JSE and statutory requirements are regarded as adequate to satisfy the information needs of stakeholders. Question 10 was a follow-up question to Question 9 and was open-ended.

7.3.1 Definition of financial communication

Responses to Question 7 were obtained from 33 of the 38 respondents. Content analysis was used to code and analyse the responses. Syntactical units of analysis were used to identify nine categories. These categories reflect different aspects of the definitions of financial communication, provided by respondents. The categories are listed in Table 7.4.
Table 7.4 Categories derived from the content analysis of respondents’ definitions of financial communication

<table>
<thead>
<tr>
<th>CATEGORY</th>
<th>NUMBER OF CASES</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Descriptors of action or process</td>
<td>30</td>
</tr>
<tr>
<td>2. Purpose of financial communication</td>
<td>9</td>
</tr>
<tr>
<td>3. Type of information referred to</td>
<td>237</td>
</tr>
<tr>
<td>• Financial information</td>
<td></td>
</tr>
<tr>
<td>• Non-financial information</td>
<td></td>
</tr>
<tr>
<td>4. Format of information</td>
<td>4</td>
</tr>
<tr>
<td>5. Characteristics of information</td>
<td>8</td>
</tr>
<tr>
<td>6. Impact of information</td>
<td>6</td>
</tr>
<tr>
<td>7. Financial reports</td>
<td>3</td>
</tr>
<tr>
<td>8. Regulatory requirements</td>
<td>3</td>
</tr>
<tr>
<td>9. Target audiences/publics/stakeholders</td>
<td>29</td>
</tr>
</tbody>
</table>

n = 122 *

* Responses included multiple categories

Although only 33 respondents answered this question, a wealth of information was obtained from their responses. Unfortunately it is not possible to discuss every category in detail. Thus, only the most significant responses in each category are discussed. Complete lists of responses in each category are provided in Appendix 5.

- **Descriptors of action or process**
  Thirteen different syntactical units (words and phrases) were identified that belong to this category. Seven respondents referred to financial communication as the “transfer or provision of information”. At a manifest level, this does not seem significant. However, when one considers the respondents’ position in their companies, a latent dimension can be identified. Five of the seven respondents were Financial Directors or Managers. In Chapter 3, it is mentioned that accountability (stewardship) is seen as the traditional objective of accounting - providing information to
owners in order to account for the utilisation of their resources. In Chapter 5, it is indicated that, from an accountability (stewardship) perspective, the provision of financial information is a one-way process. One respondent (background unknown) directly referred to external one-way communication.

However, there are also those respondents that acknowledge that financial communication is a two-way process. For example, one respondent (background unknown) was of the opinion that financial communication entails “responding to stakeholders’ and potential stakeholders’ requirements”. This strongly relates to the decision-usefulness objective of accounting, as well as the two-way symmetrical model of public relations. Furthermore, a Corporate Communication Manager explicitly referred to financial communication as a two-way process, while an Investor Relations Manager defined it as the “management of interaction between the company and the financial community”. The latter reminds one of the definition of public relations in terms of relationship management.

It is evident that there are still mixed perceptions regarding the process of financial communication. Some respondents (mostly those with a financial background) merely regarded it as the one-way transfer of financial information, while others (from various backgrounds) recognised the two-way nature of financial communication.

- **The purpose of financial communication**
  
  This category included responses that are related to responses included in the previous category, especially those regarding the two-way nature of financial communication. Two respondents wrote that the purpose of financial communication is to enable various stakeholders to make informed economic decisions. One of the respondents is a Financial
Manager, while the background of the other respondent is unknown. In Chapter 5, it is suggested that when the decision-usefulness objective underlies the accounting information system, it becomes a two-way process.

Four respondents described the purpose of financial communication as facilitating proper assessment or evaluation of the company in terms of performance and potential. In Chapter 2, this is listed as one of the objectives of investor relations (see Section 2.4).

Three respondents used the words “understand” or “understanding”. One referred to improving the market’s understanding of the company’s performance, in terms of the industry it operates in. Another referred to stakeholders’ understanding of the company’s business. A third respondent described the role of financial communication as “enabling investors to comprehensively understand and/or interpret the results and financial implications of company strategy”. Information is needed to create this understanding. There were respondents that specifically referred to the role of financial and non-financial information.

• **Type of information**
  The third category identified from the responses to Question 7 entails references to the type of information provided through financial communication. Two subcategories, financial and non-financial information, were also identified. In the first sub-category, seven respondents mentioned information about the company’s financial performance, while four referred to information about the company’s financial position. Six respondents indicated that only relevant or salient financial information should be provided. One respondent referred to the price sensitive nature of financial information.
In the subcategory, non-financial information, five respondents referred to information related to company strategy, while two mentioned corporate governance issues. Positioning of the company, key operational indicators, labour relations and environmental issues were some of the observations made by single respondents.

Referring back to Table 7.4, 23 respondents referred to financial information, while only seven referred to non-financial information. Obviously, financial communication is first and foremost concerned with the provision of financial information. However, there are some indications of a “triple bottom line” approach - corporate governance is mentioned twice and environmental issues once.

- **Format, characteristics and impact of information**

A small number of respondents referred to the format, characteristics and impact of information in their definitions of financial communication (see Table 7.4). In terms of format, one respondent indicated that information must be provided in an easy-to-access format. Another remarked that financial communication includes explanation and analysis, over and above the sharing of information.

The following four characteristics of information were mentioned by more than one respondent: timeliness, transparency, reliability and accuracy. Single respondents mentioned comprehensiveness, understandability, meaningfulness and consistency. Most importantly, three respondents made reference to the impact of information on a company’s share price.

The controversy surrounding the objectives of investor relations and share price movement is discussed in Chapter 2. On the one side there are those that believe that the purpose of investor relations is to increase the share price (McBride & McBride, 2001), while others strongly oppose this view (Smith, 1989:13). The latter group is concerned that a fixation with
share price levels might lead to a short-term and narrow orientation to company performance.

The information included in this category is far too limited to support or refute the claim that the purpose of financial communication is to increase the share price. The fact that the impact of information on a company’s share price was mentioned, only suggests that a number of South African companies might follow a rather narrow-minded approach to financial communication.

- **Financial reports and regulatory requirements**
  Although a distinction is made between these two categories, it makes sense to discuss them in conjunction with each other. The reason is that the format and content of financial reports are, to a large extent, determined by regulatory requirements. One respondent actually referred directly to this connection. The role of the annual report in financial communication is mentioned twice. The same applies to the importance of adhering to regulatory requirements. Questions 9 and 10 investigated the role of regulatory requirements in more detail (see Section 7.3.3).

- **Target audiences / publics / stakeholders**
  This is the second largest category in terms of the number of cases (see Table 7.4), and also the most important in terms of Construct 1 (inclusive approach to financial communication). The most significant aspect of this category is that 16 respondents referred to stakeholders (relevant, identified, interested, external and internal) in their definitions of financial communication. This clearly shows that there are indications of an inclusive approach to financial communication amongst the companies surveyed. This is not totally surprising, when one considers the emphasis that the 2002 King Report on Corporate Governance places on an inclusive approach. What is more, a survey conducted in 1999 revealed
that business leaders in South Africa have the highest awareness of the stakeholder concept in the world (Wah, 1999).

Several respondents referred to specific stakeholder groups. Table 7.5 provides a list of these groups, together with the frequencies of each.

Table 7.5  Frequency distribution of the stakeholder groups referred to in respondents’ definitions of financial communication

<table>
<thead>
<tr>
<th>STAKEHOLDER GROUP</th>
<th>FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial community</td>
<td>6</td>
<td>13,6</td>
</tr>
<tr>
<td>Investors</td>
<td>9</td>
<td>20,5</td>
</tr>
<tr>
<td>Analysts</td>
<td>5</td>
<td>11,4</td>
</tr>
<tr>
<td>The (financial) media</td>
<td>4</td>
<td>9,1</td>
</tr>
<tr>
<td>Asset/Portfolio Managers</td>
<td>3</td>
<td>6,8</td>
</tr>
<tr>
<td>Banks</td>
<td>3</td>
<td>6,8</td>
</tr>
<tr>
<td>Employees</td>
<td>5</td>
<td>11,4</td>
</tr>
<tr>
<td>Customers/Clients</td>
<td>3</td>
<td>6,8</td>
</tr>
<tr>
<td>Government/Regulators</td>
<td>2</td>
<td>4,5</td>
</tr>
<tr>
<td>General public</td>
<td>4</td>
<td>9,1</td>
</tr>
</tbody>
</table>

\* Multiple responses

What is very interesting, is that employees are mentioned five times (11,4%), only one time less than the financial community. The general public also obtained a relatively high number of counts in comparison with the other stakeholder groups. Other than these, the results reflect the tendency to favour financial stakeholders. It is noted in Chapter 2 that most definitions of investor relations only refer to financial stakeholders.

In conclusion, analysis of the responses to Question 7 reveals that there are indications of an inclusive approach to financial communication. However, it is difficult, if not impossible, to determine to what extent. This problem is addressed by Question 8, which investigated the importance of engaging in financial communication with various stakeholder groups.
7.3.2 The importance of financial communication with various stakeholder groups

In Question 8 respondents were asked to indicate, on a seven point scale, how important or unimportant it is to engage in financial communication with various stakeholder groups. The stakeholder groups (variables) were listed in alphabetical order. This was done to prevent bias. For example, if financial stakeholder groups were mentioned first and grouped together, responses might have been influenced. To ensure exhaustiveness, an “Other” category was added to the list, accompanied by a space where details could be provided. However, only three respondents selected this option. In addition, none of the respondents provided any details. The “Other” category was therefore not taken into account during data analysis.

In the sections that follow, the analysis of the results is discussed with reference to one measure of location (the mean) and one measure of spread (standard deviation). These measures are the most commonly used descriptive statistical measures.

Please note: The respondents in this survey are highly diverse in terms of position and functional affiliation in the company. As a precautionary measure, the means and standard deviations of each stakeholder group were also calculated in terms of the different categories of respondents (Top Management, Financial, Communication, Investor Relations and Marketing). Interestingly enough, it was found that the ratings of respondents in these categories did not differ significantly. See Appendix 6 for the statistical analysis.

The mean values for each variable (stakeholder group) are depicted in Figure 7.1.
In the previous section (results of the content analysis of Question 7 responses), it was noted that stakeholders belonging to the financial community were mentioned more often than other stakeholders. The same tendency is apparent from the results of Question 8. Three of the four financial stakeholders included in the list (institutional shareholders, financial analysts and individual shareholders) obtained mean values of higher than six. The fourth financial stakeholder, banking institutions, obtained a value of just below six. Other stakeholder groups that had high means are managers and the media (both above six). In other words, respondents rated financial communication with institutional shareholders, financial analysts, individual shareholders, the media, managers and banking institutions as extremely important. This is consistent with theoretical perspectives surrounding financial communication.
Stakeholders that were rated as moderately to very important (mean values between four and six) include customers, employees, the general public and government. The results regarding suppliers and trade unions are inconclusive. Both obtained mean values of just above four (the centre of the scale).

The only two groups that were rated as relatively unimportant (means values of below four) are environmental pressure groups and local communities. In the context of corporate governance and related issues such as corporate social responsibility (“triple bottom line”) and corporate social reporting (notably “green” reporting), this is quite interesting. However, neither of these stakeholder groups were rated as totally unimportant, but obtained mean values of 3,79 and 3,74, respectively. This might indicate that respondents are not 100% sure about the importance of financial communication with these groups, although the awareness of its importance might be increasing.

Besides the arithmetic mean, the standard deviation was also calculated for each variable in Question 8. The standard deviation, as well as the mean for each variable, are indicated in Table 7.6.
Table 7.6   Importance of financial communication with various stakeholders - mean and standard deviation values

<table>
<thead>
<tr>
<th>VARIABLE</th>
<th>n</th>
<th>( \bar{x} )</th>
<th>s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banking institutions</td>
<td>38</td>
<td>5.89</td>
<td>1.226</td>
</tr>
<tr>
<td>Customers</td>
<td>37</td>
<td>4.97</td>
<td>1.443</td>
</tr>
<tr>
<td>Employees</td>
<td>38</td>
<td>5.87</td>
<td>1.095</td>
</tr>
<tr>
<td>Environmental pressure groups</td>
<td>38</td>
<td>3.79</td>
<td>1.711</td>
</tr>
<tr>
<td>Financial analysts</td>
<td>38</td>
<td>6.53</td>
<td>0.951</td>
</tr>
<tr>
<td>General public</td>
<td>38</td>
<td>4.95</td>
<td>1.659</td>
</tr>
<tr>
<td>Government</td>
<td>38</td>
<td>5.05</td>
<td>1.559</td>
</tr>
<tr>
<td>Institutional shareholders</td>
<td>38</td>
<td>6.63</td>
<td>1.125</td>
</tr>
<tr>
<td>Individual shareholders</td>
<td>37</td>
<td>6.27</td>
<td>1.262</td>
</tr>
<tr>
<td>Local communities</td>
<td>38</td>
<td>3.74</td>
<td>1.688</td>
</tr>
<tr>
<td>Managers</td>
<td>38</td>
<td>6.13</td>
<td>0.704</td>
</tr>
<tr>
<td>Media</td>
<td>38</td>
<td>6.16</td>
<td>1.027</td>
</tr>
<tr>
<td>Suppliers</td>
<td>37</td>
<td>4.03</td>
<td>1.443</td>
</tr>
<tr>
<td>Trade unions</td>
<td>36</td>
<td>4.14</td>
<td>1.710</td>
</tr>
</tbody>
</table>

The standard deviation values for all the variables are relatively low. This indicates that respondents did not differ much in their opinions regarding the importance of financial communication with various stakeholders. However, the variables with the highest standard deviation warrant further discussion. For example, the variable “Environmental pressure groups” was rated as less important, according to the mean value. It also has the highest standard deviation, which indicates that opinions regarding its importance differed to a certain extent. Similarly, the variables “Trade unions” and “Local communities” yielded relatively low means and relatively high standard deviations. In Tables 7.7 and 7.8 the frequency distribution of the data values for environmental pressure groups and trade unions are indicated. A similar table for local communities is included in Appendix 7.
Table 7.7 Frequency distribution of data values for the environmental pressure groups variable

<table>
<thead>
<tr>
<th>DESCRIPTOR</th>
<th>SCALE VALUE</th>
<th>FREQUENCY</th>
<th>%</th>
<th>CUM. %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not important at all</td>
<td>1</td>
<td>4</td>
<td>10,5</td>
<td>10,5</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>8</td>
<td>21,1</td>
<td>31,6</td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>2</td>
<td>5,3</td>
<td>36,8</td>
</tr>
<tr>
<td></td>
<td>4</td>
<td>10</td>
<td>26,3</td>
<td>63,2</td>
</tr>
<tr>
<td></td>
<td>5</td>
<td>7</td>
<td>18,4</td>
<td>81,6</td>
</tr>
<tr>
<td></td>
<td>6</td>
<td>6</td>
<td>15,8</td>
<td>97,4</td>
</tr>
<tr>
<td></td>
<td>7</td>
<td>1</td>
<td>2,6</td>
<td>100</td>
</tr>
<tr>
<td>Very important</td>
<td>Total</td>
<td>n = 38</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

One conclusion that can be drawn from Table 7.7 is that many respondents were not sure how important it is to engage in financial communication with environmental pressure groups, and therefore chose the option in the middle (4). What is also interesting is that the number of respondents who rated this variable as important were almost equal to the number of respondents who rated it as not important.

The frequency distribution of data values for the trade union variable (Table 7.8) follows a similar pattern. The mean calculated for this variable (4,14) does not reveal much about its importance. However, when studying the standard deviation, as well as the frequencies for this variable, it is evident that respondents had different opinions regarding its importance. The reason for this might be that some companies had to cope with more or bigger labour related issues than others, and are therefore more sensitive to the financial information needs of trade unions. It can also indicate that some companies follow a more inclusive approach to financial communication than others. The results also indicate that a valuable contribution can be made by doing research that focuses specifically on financial communication with trade unions.
Table 7.8  Frequency distribution of data values for the trade unions variable

<table>
<thead>
<tr>
<th>DESCRIPTOR</th>
<th>SCALE VALUE</th>
<th>FREQUENCY</th>
<th>%</th>
<th>VALID %</th>
<th>CUM. %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not important at all</td>
<td>1</td>
<td>3</td>
<td>7,9</td>
<td>8,3</td>
<td>8,3</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>4</td>
<td>10,5</td>
<td>11,1</td>
<td>19,4</td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>6</td>
<td>15,8</td>
<td>16,7</td>
<td>36,1</td>
</tr>
<tr>
<td></td>
<td>4</td>
<td>5</td>
<td>13,2</td>
<td>13,9</td>
<td>50,0</td>
</tr>
<tr>
<td></td>
<td>5</td>
<td>11</td>
<td>28,9</td>
<td>30,6</td>
<td>80,6</td>
</tr>
<tr>
<td></td>
<td>6</td>
<td>4</td>
<td>10,5</td>
<td>11,1</td>
<td>91,7</td>
</tr>
<tr>
<td></td>
<td>7</td>
<td>3</td>
<td>7,9</td>
<td>8,3</td>
<td>100</td>
</tr>
<tr>
<td>Very important</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>36</td>
<td>94,7</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Missing (No response)</td>
<td></td>
<td>2</td>
<td>5,3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>n = 38</td>
<td>100</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

In conclusion, it can be said that there are definite indications of an inclusive approach to financial communication amongst the companies surveyed. Of the fourteen stakeholder groups, eight yielded a mean value of five or more, while two obtained a mean value of very close to five. If one takes into account that only four of the stakeholder groups listed are obvious members of the financial community, this is significant.

7.3.3  JSE/statutory requirements and stakeholder information needs

In Question 9, a different strategy was followed to determine whether there is evidence of an inclusive approach to financial communication. Respondents had to indicate whether they agree or disagree with the statement that JSE and statutory requirements for the disclosure of financial information is adequate to meet the needs of stakeholders. It is important to note that these requirements stipulate the minimum of what is expected in terms of financial disclosure.

Question 9 consisted of only one variable. Both the mean and the standard deviation were calculated. The results of these analyses are summarised in Tables 7.9 and 7.10. Please note that the three missing values are those of the
three pilot test respondents, as this question was not included in the original questionnaire.

Table 7.9 Descriptive statistical analysis of responses concerning the adequacy of JSE/statutory requirements

<table>
<thead>
<tr>
<th>MEASURE</th>
<th>VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td>35</td>
</tr>
<tr>
<td>Missing</td>
<td>3</td>
</tr>
<tr>
<td>Mean</td>
<td>3,94</td>
</tr>
<tr>
<td>Standard Deviation</td>
<td>1,999</td>
</tr>
<tr>
<td>Minimum</td>
<td>1</td>
</tr>
<tr>
<td>Maximum</td>
<td>7</td>
</tr>
</tbody>
</table>

Table 7.10 Frequency distribution of data values concerning the adequacy of JSE/statutory requirements

<table>
<thead>
<tr>
<th>DESCRIPTOR</th>
<th>SCALE VALUE</th>
<th>FREQUENCY</th>
<th>%</th>
<th>VALID %</th>
<th>CUM. %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly disagree</td>
<td>1</td>
<td>5</td>
<td>13,2</td>
<td>14,3</td>
<td>14,3</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>5</td>
<td>13,2</td>
<td>14,3</td>
<td>28,6</td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>6</td>
<td>15,8</td>
<td>17,1</td>
<td>45,7</td>
</tr>
<tr>
<td></td>
<td>4</td>
<td>4</td>
<td>10,5</td>
<td>11,4</td>
<td>57,1</td>
</tr>
<tr>
<td></td>
<td>5</td>
<td>5</td>
<td>13,2</td>
<td>14,3</td>
<td>71,4</td>
</tr>
<tr>
<td></td>
<td>6</td>
<td>6</td>
<td>15,8</td>
<td>17,1</td>
<td>88,6</td>
</tr>
<tr>
<td>Strongly agree</td>
<td>7</td>
<td>4</td>
<td>10,5</td>
<td>11,4</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>35</td>
<td>92,1</td>
<td></td>
<td>100</td>
</tr>
<tr>
<td>Missing (No response)</td>
<td>3</td>
<td></td>
<td>7,9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>n = 38</td>
<td>100</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

It is obvious from the two tables above, that respondents differed significantly in their opinions regarding the adequacy of JSE and statutory disclosure requirements. However, one has to take into account that the respondents were very diverse in terms of position or functional affiliation in the company. It is thus necessary to determine whether these categories of respondents differed in their
responses. Table 7.11 provides a summary of the mean and standard deviation values for each category.

Table 7.11 Adequacy of JSE/statutory requirements - mean and standard deviation values according to position/functional affiliation in company

<table>
<thead>
<tr>
<th></th>
<th>TOP MANAGEMENT</th>
<th>FINANCIAL</th>
<th>COMMUNICATION</th>
<th>INVESTOR RELATIONS</th>
<th>MARKETING</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>3,14</td>
<td>4,77</td>
<td>2,43</td>
<td>4,40</td>
<td>5,00</td>
</tr>
<tr>
<td>Standard Deviation</td>
<td>2,193</td>
<td>2,127</td>
<td>1,134</td>
<td>1,517</td>
<td>1,000</td>
</tr>
</tbody>
</table>

It is obvious that position or functional affiliation in the company played a role in this question. Not surprisingly, respondents in the financial category rated the adequacy of JSE and statutory requirements higher than, for example, those in the communication category. However, it is also obvious from the standard deviation values, that respondents in the same category had different opinions (see Appendix 8 for a frequency distribution of data values according to position / functional affiliation in company).

Why did respondents’ opinions about the adequacy of JSE and statutory disclosure requirements differ so much? Related to the diversity of respondents, one reason might be that respondents’ understanding of the concept “stakeholder” differed. It is possible, for instance, that respondents in the financial category thought only of financial stakeholders, when answering the question. In that case, JSE and statutory requirements might have been regarded as adequate to meet the financial information needs of these stakeholders. Similarly, respondents in the communication category might have interpreted “stakeholder” in broader terms. This might explain why a mean value of only 2.43 was obtained in this category.
In Question 10, respondents who disagreed with the statement in Question 9 were asked to explain why. Because it was an open-ended question, content analysis was used to analyse the responses in the same way as the responses to Question 7. Syntactical units were again used to identify main categories of responses. Three such categories were identified, namely 1) opinions about JSE and statutory requirements, 2) concern with stakeholder needs and 3) communication issues.

In general, respondents that answered this question thought that JSE and statutory requirements are very limited/limiting. One referred to the fact that they are only the minimum requirements. The majority of respondents referred to the need for additional information to meet the needs of stakeholders. Practical examples of other types of communication with stakeholders were given, for example personal interaction, analyst and employee presentations and the use of the Internet. What is important in terms of future research, is that one respondent referred to a lack of financial literacy, while another referred to the need for investor education. In the South African context, this is extremely important. The majority of the South African population lives in the utmost poverty. One way to improve this situation is to empower people to make the best possible decisions regarding the allocation of their scarce resources.

Table 7.12 is a summary of the responses to Question 10, according to the three categories identified during the content analysis. Most of the respondents who answered this question expressed opinions about stakeholder needs and communication issues. This was probably because the term “stakeholder” was typed in bold in the question.
Table 7.12 Opinions regarding the inadequacy of JSE/statutory requirements

<table>
<thead>
<tr>
<th>RESPONSE</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>JSE AND STATUTORY REQUIREMENTS</td>
<td></td>
</tr>
<tr>
<td>... are the basic or minimum requirement ...</td>
<td></td>
</tr>
<tr>
<td>... are hard to understand ...</td>
<td></td>
</tr>
<tr>
<td>... need clarification ...</td>
<td></td>
</tr>
<tr>
<td>... are focussed on avoiding preference and other legal issues.</td>
<td></td>
</tr>
<tr>
<td>CONCERN WITH STAKEHOLDER NEEDS</td>
<td></td>
</tr>
<tr>
<td>.. do not consider all stakeholders ...</td>
<td></td>
</tr>
<tr>
<td>Stakeholders require different or more comprehensive information.</td>
<td></td>
</tr>
<tr>
<td>Stakeholders need to know more ... an explanation of the state of the economy, key events in the company’s sector and other issues impacting on a company’s prospects.</td>
<td></td>
</tr>
<tr>
<td>Stakeholders need a holistic understanding of your company.</td>
<td></td>
</tr>
<tr>
<td>... need to be supplemented by selective and intelligent additional communication.</td>
<td></td>
</tr>
<tr>
<td>Not all stakeholders are financially literate or have easy access to statutory information.</td>
<td></td>
</tr>
<tr>
<td>... the first-time investor demands more personal attention. Since most investment concepts are foreign, investor education is key.</td>
<td></td>
</tr>
<tr>
<td>COMMUNICATION ISSUES</td>
<td></td>
</tr>
<tr>
<td>... a very limited view of communication</td>
<td></td>
</tr>
<tr>
<td>... are extensive but do not automatically entail communication of factors which drive the business and financial performance.</td>
<td></td>
</tr>
<tr>
<td>... don’t ... have any practical application in creating transparency or providing value added communication.</td>
<td></td>
</tr>
<tr>
<td>Face-to-face communication is essential - interested parties must be given the opportunity to have their questions answered.</td>
<td></td>
</tr>
<tr>
<td>Regular analyst [sic] and employee presentations need to be made as well as regular press and radio updates. An internet site ... is a good way of keeping the public informed.</td>
<td></td>
</tr>
<tr>
<td>Regulatory info is not necessarily qualitative.</td>
<td></td>
</tr>
<tr>
<td>A more proactive strategy is required.</td>
<td></td>
</tr>
</tbody>
</table>
The results from Questions 9 and 10 do not provide such strong evidence of an inclusive approach to financial communication as the results from Questions 7 and 8. However, when studying the responses of the two role players this study focuses on (respondents in the financial and communication categories), two observations can be made. Firstly, none of the respondents in the communication category (public relations, corporate communication and public affairs) viewed JSE and statutory requirements as adequate. This makes sense, as their role is to manage a company’s interactions with a wide range of stakeholders, not only financial stakeholders.

Secondly, respondents in the financial category had very diverse opinions on the topic. This might be explained by considering the role and influence of the 2002 King Report on Corporate Governance. In Chapter 4 it is noted that codes of corporate governance are sometimes seen as being restrictive and a source of irritation. The real purpose or “spirit” of corporate governance is not recognised. In South Africa, companies listed on the JSE have to adhere to the guidelines in the King Report. Therefore, all the respondents in the financial category would be familiar with its contents. However, their interpretations of the guidelines might differ. This might explain why some of the respondents in this category displayed an inclusive stakeholder orientation and others not.

### 7.4 Conclusion

The aim of this chapter was to address the following research objective:

<table>
<thead>
<tr>
<th>5. To use empirical research to establish whether a number of South African companies listed on the Johannesburg Stock Exchange (JSE):</th>
</tr>
</thead>
<tbody>
<tr>
<td>• follow an inclusive (stakeholder) approach to financial communication</td>
</tr>
</tbody>
</table>

Are there indications of an inclusive approach to financial communication amongst the companies surveyed? Based on the results of Question 7 and 8, there are. In their definitions of financial communication, 16 of the 33
respondents that answered Question 7, used the term “stakeholder”. A large number also referred to specific stakeholders by name, for example employees, customers and the general public. This is in addition to the references to financial stakeholders such as investors, analysts and banks. In Question 8, financial communication with only two of the fourteen stakeholder groups on the list was rated as relatively unimportant (environmental pressure groups and local communities).

However, the results of Question 9 (adequacy of JSE and statutory requirements) are inconclusive. Data values are widely dispersed around the overall mean of 3.94 (which is very close to four, the centre of the seven point scale). This dispersion of opinions can be attributed to the diversity of respondents in terms of position / functional affiliation in the company. Respondents that answered Question 10 (opinions about the inadequacy of JSE and statutory requirements) referred to the fact that these requirements are the basic minimum, that stakeholders need more or different types of information and that there are other channels of financial communication, besides financial disclosure processes.

It must be kept in mind that this study is exploratory and the goal is not to generalise these findings to the whole population of South African companies. More formal and extensive research should therefore be considered, in order to establish whether South African companies in general, follow an inclusive approach to financial communication.
Research objectives:

5. To use empirical research to establish whether a number of South African companies listed on the Johannesburg Stock Exchange (JSE):
   - follow an integrated approach (in terms of management and organisation) to financial communication.

6. To identify similarities and/or differences between the results of this study and results of three similar studies conducted previously in the USA, United Kingdom and Europe.
CHAPTER 8
Research findings - an integrated approach to financial communication

For two hundred years people have founded and built companies around Adam Smith’s brilliant discovery that industrial work should be broken down into its simplest and most basic tasks. In the post industrial age we are now entering, corporations will be founded and built around the idea of re-unifying those tasks into coherent business processes. - Hammer & Champy (in Hope & Hope, 1996:77)

8.1 Introduction
In Chapter 7, the results of the empirical research related to the construct “an inclusive approach to financial communication”, were reported and interpreted. This chapter deals with the results related to the construct “an integrated approach to financial communication” and addresses the following research objectives:

5. To use empirical research to establish whether a number of South African companies listed on the Johannesburg Stock Exchange (JSE):
   • follow an integrated approach (in terms of management and organisation) to financial communication.

6. To identify similarities and/or differences between the results of this study and results of three similar studies conducted previously in the USA, United Kingdom and Europe.

As noted in Chapter 7, the study is exploratory, but quantitative in nature. An electronic questionnaire survey was used to collect data from the Top 300 South African listed companies, ranked according to market capitalisation. A response rate of 12,7% was
obtained. The majority of responses (60.5%) were received from the Top 100 South African companies listed on the Johannesburg Stock Exchange (JSE). Please refer to Tables 7.1, 7.2 and 7.3 (in Chapter 7) for more information regarding company and respondent profiles.

8.2 Findings regarding an integrated approach to financial communication

The second construct underlying this study (integrated approach to financial communication), is understood in terms of the management and organisation of the financial communication process. In the theoretical discussion in Chapter 2, a distinction is made between organisation on the functional and departmental level, and reporting relationships and senior management involvement (management). The same framework was used in the empirical component of this study.

8.2.1 Organisation of financial communication

Questions 11, 12, 13 and 14 were designed to investigate how companies organise (or co-ordinate) financial communication efforts (see Appendix 3 for a copy of the questionnaire). Is financial communication a function or department on its own, does a cross-functional team take responsibility, or is it part of the responsibilities of another department or function? The purpose of Question 11 was to provide answers to these questions. A multiple choice, single response scale was used and therefore yielded nominal data. The results (in percentages) are portrayed in Figure 8.1, while the frequency distribution of responses is depicted in Table 8.1.
The largest percentage of respondents (36.8%) indicated that a cross-functional team takes responsibility for financial communication. The Financial department was the second most popular arrangement (23.7%), with Corporate Communication in third place. Three respondents selected the “Other” option. One indicated that the Financial Director took responsibility, with assistance from the Chief Executive Officer and “Marketing Person”, while another indicated that the company’s executive directors coordinated financial communication. The third respondent did not provide details.
Table 8.1  Coordination of financial communication - frequency distribution

<table>
<thead>
<tr>
<th>VARIABLE</th>
<th>FREQUENCY</th>
<th>%</th>
<th>CUM. %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Separate department</td>
<td>2</td>
<td>5,3</td>
<td>5,3</td>
</tr>
<tr>
<td>Cross-functional team</td>
<td>14</td>
<td>36,8</td>
<td>42,1</td>
</tr>
<tr>
<td>Financial department</td>
<td>9</td>
<td>23,7</td>
<td>65,8</td>
</tr>
<tr>
<td>Public Relations department</td>
<td>1</td>
<td>2,6</td>
<td>68,4</td>
</tr>
<tr>
<td>Corporate Communication department</td>
<td>6</td>
<td>15,8</td>
<td>84,2</td>
</tr>
<tr>
<td>Marketing department</td>
<td>3</td>
<td>7,9</td>
<td>92,1</td>
</tr>
<tr>
<td>Other</td>
<td>3</td>
<td>7,9</td>
<td>100</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>n = 38</strong></td>
<td><strong>100</strong></td>
<td></td>
</tr>
</tbody>
</table>

Respondents that selected the “separate department” option were directed to Question 12, where they had to provide the name of the department. The two respondents who selected this option, both indicated that the department was known as the Investor Relations department. (The decision not to use the term “investor relations” anywhere in the questionnaire is explained in Chapter 6.) In Question 13, another follow-up question, respondents were requested to indicate the main field of expertise of the manager of the separate department. One respondent selected the “Economics” option. The other respondent selected the “Investment” option, but also indicated that the manager is a chartered accountant.

In Chapter 2, the results of similar studies conducted previously are reported. Although this study did not replicate any of these studies, there are certain similarities. For example, Marston (1996), Marston and Straker (2001) and Petersen and Martin (1996) used questions similar to Question 11, to investigate the organisation / position of investor relations in the organisational hierarchy. Because different variables (categories) were used, it is not possible to draw a comparison between the results of this study and the ones conducted previously. However, there are some similarities and differences that can be highlighted. In Table 8.2, variables used in Question 11, that
were also used in some of the other studies, are listed. The percentages of respondents that selected these variables are indicated for each study.

Table 8.2   Results of this study and three similar studies conducted previously

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Separate department</td>
<td>5,3%</td>
<td>53,8%</td>
<td>-</td>
<td>8,9%</td>
</tr>
<tr>
<td>Cross-functional team</td>
<td>36,8%</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Financial department</td>
<td>23,7%</td>
<td>30,8%</td>
<td>63%</td>
<td>35,9%</td>
</tr>
<tr>
<td>PR/Corp. Comm.</td>
<td>18,4%</td>
<td>4,6%</td>
<td>12%</td>
<td>19,9%</td>
</tr>
<tr>
<td>Marketing</td>
<td>7,9%</td>
<td>-</td>
<td>7%</td>
<td>-</td>
</tr>
</tbody>
</table>

Note that not all variables used in the different questions were included in Table 8.2. The variables used in this study were used as guideline. Marston (1996) and Marston and Straker (2001) included the Company Secretary's department, while Petersen and Martin (1996) included the Legal Affairs department and outside consultants in their list. None of these variables were used in this study. Also note that the dates in brackets indicate the year in which the study was actually conducted, not the year in which the results were published.

The purpose of Table 8.2 is not to draw any definite conclusions, but merely to emphasise some of the similarities and differences between the results. What makes this study different from the others is the inclusion of the cross-functional team variable. This in itself makes absolute comparisons impossible. However, it is interesting to note that the Financial department was a popular arrangement in all the studies - it either obtained the highest or the second highest percentage. The fact that the majority of respondents in this study selected the cross-functional team option suggests that there are indications of an integrated approach to financial communication. However, the absence of this variable in the other studies does not necessarily mean that the same is not currently happening in other countries. In fact, it would be very interesting to conduct research of this kind in future, but in different countries simultaneously.
Respondents that selected the cross-functional team option in Question 11 were directed to Questions 14 and 15. In Question 14, respondents had to indicate which functions were represented in the cross-functional team, by selecting \textit{all} appropriate options from the list given. An “Other” option was included to ensure exhaustiveness. Seven functions were listed, plus the “Other” option. This means that any number of combinations was possible. However, it was decided not to analyse all the different combinations, but to calculate how many times each variable was selected. This would give an indication of how important respondents considered the inclusion of each function in the cross-functional team. The frequencies for each variable are depicted in Figure 8.2
Figure 8.2  Inclusion of function in cross-functional team - number of cases

Thirteen of the 14 respondents who answered Question 14, selected the Accounting function. A fourteenth respondent only selected the “Other” option, but nevertheless indicated that the Finance Department is also part of the cross-functional team. It is also apparent from Figure 8.2 that respondents regarded the involvement of communication functions such as Public Relations and Corporate Communication as important. Another interesting aspect is that only six of the fourteen respondents indicated that the Legal function is part of the cross-functional team. A large component of financial communication messages are regulated by legal and statutory requirements. One would therefore have expected this variable to be selected more frequently.
Only two respondents selected the “Marketing” option. This is even more interesting, when it is taken into account that only three respondents indicated that the Marketing department took sole responsibility for financial communication (in Question 11). In Chapter 2 it was mentioned that there is a growing body of literature that suggests that investor relations is a marketing function. However, it should be kept in mind that one cannot generalise these findings to the entire population of South African listed companies. A more extensive survey, with a higher response rate, might reveal a totally different situation.

Ten respondents selected the “Other” option. Both the Investor Relations department and involvement of Board members were mentioned four times. Other functions or individuals included in the cross-functional team, were the Human Resources department, the Company Secretary, the company’s Transfer Secretaries and advisors.

In Question 15, respondents had to indicate who was the leader of the cross-functional team. The results (in percentages) are depicted in Figure 8.3. Table 8.3 represents the frequency distribution for each variable.
Besides those respondents that selected the “Other” option (38.9%), the second largest percentage of respondents (27.8%) indicated that the Head of the Financial Department is the leader of the cross-functional team.
Table 8.3  Leader of the cross-functional team - frequency distribution

<table>
<thead>
<tr>
<th>VARIABLE</th>
<th>FREQUENCY</th>
<th>%</th>
<th>VALID %</th>
<th>CUM. %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Head of Marketing</td>
<td>1</td>
<td>2,6</td>
<td>5,6</td>
<td>5,6</td>
</tr>
<tr>
<td>Head of Corporate Communication</td>
<td>4</td>
<td>10,5</td>
<td>22,2</td>
<td>27,8</td>
</tr>
<tr>
<td>Head of Financial department</td>
<td>5</td>
<td>13,2</td>
<td>27,8</td>
<td>56,6</td>
</tr>
<tr>
<td>No appointed leader</td>
<td>1</td>
<td>2,6</td>
<td>5,6</td>
<td>61,1</td>
</tr>
<tr>
<td>Other</td>
<td>7</td>
<td>18,4</td>
<td>38,9</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td>18</td>
<td>47,4</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Missing (Not applicable)</td>
<td>20</td>
<td>52,6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>n = 38</td>
<td>100</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note that three variables (Head of Public Relations, Head of Public Affairs and Head of Legal department) were not selected by any of the respondents. Furthermore, the frequencies of two variables (“Head of Corporate Communication” and “Head of Financial department”) are very close to each other. This highlights the diverse approaches to the management of financial communication. Responses to the “Other” option add to this diversity. For example, six of the seven respondents who made use of this option, indicated that a member of the Board of Directors was the leader of the cross-functional team. This also highlights the fact that financial communication is regarded as a strategically important function. One respondent indicated that the Head of Investor Relations was the leader of the cross-functional team.

The following comments serve to conclude this section about the organisation of financial communication. In the first place, the majority of companies surveyed used a cross-functional team to co-ordinate financial communication efforts. This is encouraging, as it indicates that there is recognition of the interdisciplinary nature of financial communication. The important contribution of both the Accounting and Communication disciplines are also evident from the results of Question 14 (inclusion of functions in the cross-functional team).
However, the “cross-functional team” option in Question 11 is the only one that represents a truly integrated approach to financial communication. In other words, 55.3% of respondents (63.2% minus the 7.9% that selected the “Other” option) indicated that one department (such as the Financial, Corporate Communication or Marketing department) took sole responsibility for financial communication. By looking at the results in this way, it becomes clear that an integrated approach to financial communication is still lacking (at least amongst the companies surveyed).

8.2.2 Management of financial communication

Although several role players in the financial communication process were included as variables in the questionnaire items, the study as a whole focuses on only two: the most senior financial manager (accountant) and the most senior public relations/corporate communication manager (from now on referred to as the most senior communication manager). The purpose of Questions 16 and 17 was to investigate the degree of involvement of these two executives in various aspects of the financial communication process. The same variables were used in both questions and represented different aspects of the financial communication process.

However, financial communication is a highly specialised function. According to the investor relations literature, consultants provide various services and should be used for their knowledge and expertise (Coyle, 1990; McBride & McBride, 2001). It was therefore decided to use the same variables in Question 18, as those used in Questions 16 and 17, to investigate the level of consultant involvement.

Please note that the variables used in these three questions (aspects of financial communication) differ slightly from the steps in the model for an integrated approach to financial communication as set out in Chapter 5. The variables only deal with the process involving the output of the accounting information system, not with the design of the accounting information system itself.
The mean and standard deviation was calculated for all seven variables, for all three questions. The results are summarised in Table 8.4. When studying the standard deviation values for all the variables and questions, it becomes clear that there is no consensus regarding the degree of involvement of either the most senior financial manager, the most senior communication manager or consultants, in the financial communication process. There is not a single standard deviation value less than 1,5 for any of the variables or questions. It is therefore necessary to study the results of each question separately, to identify whether a particular role player achieved higher mean values on certain variables than the other role players.
Table 8.4 Summary of descriptive statistics - importance of involvement of the most senior financial manager, most senior communication manager and consultants in financial communication

<table>
<thead>
<tr>
<th>VARIABLE</th>
<th>SNR FIN MAN</th>
<th>SNR PR/CC MAN</th>
<th>CONSULTANTS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>n</td>
<td></td>
<td>S</td>
</tr>
<tr>
<td>Environmental scanning</td>
<td>37</td>
<td>4,00</td>
<td>1,700</td>
</tr>
<tr>
<td>Research to identify financial information needs</td>
<td>37</td>
<td>4,81</td>
<td>1,729</td>
</tr>
<tr>
<td>Formulation of financial communication strategy</td>
<td>38</td>
<td>4,74</td>
<td>1,913</td>
</tr>
<tr>
<td>Planning financial communication campaigns/programmes</td>
<td>37</td>
<td>4,11</td>
<td>1,912</td>
</tr>
<tr>
<td>Formulation of financial content messages</td>
<td>38</td>
<td>5,32</td>
<td>1,629</td>
</tr>
<tr>
<td>Implementing financial communication campaigns/programmes</td>
<td>38</td>
<td>4,00</td>
<td>1,801</td>
</tr>
<tr>
<td>Evaluating financial communication campaigns/programmes</td>
<td>38</td>
<td>3,92</td>
<td>1,880</td>
</tr>
<tr>
<td>Valid n (listwise)</td>
<td>37</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Question 16 focused on the involvement of the most senior financial manager in the financial communication process. The mean values for each variable in this question are depicted in Figure 8.4. The three variables with the highest means values are:

1. Formulation of financial content messages ($\bar{x} = 4.93$)
2. Research to identify the financial information needs of stakeholders ($\bar{x} = 4.71$)
3. Formulation of a financial communication strategy ($\bar{x} = 4.74$)

Figure 8.4 Importance of the involvement of the most senior financial manager in various aspects of the financial communication process
In Question 17, respondents were asked to rate the importance of the most senior communication manager’s involvement in the financial communication process. The mean values for each variable are depicted in Figure 8.5. The three variables with the highest mean values are:

1. Implementing financial communication campaigns / programmes ($\bar{x} = 5.37$)
2. Planning financial communication campaigns / programmes ($\bar{x} = 5.13$)
3. Environmental scanning to identify issues and the stakeholders involved ($\bar{x} = 5.07$)

**Figure 8.5 Importance of the involvement of the most senior communication manager in various aspects of the financial communication process**
Question 18 applied to the involvement of consultants in the financial communication process. Surprisingly, none of the aspects of financial communication (variables) were outsourced to a large extent (see Figure 8.6). To the contrary, all of the variables obtained mean values of below four. However, three aspects were outsourced to a greater extent than others, namely:

1. Research to identify the financial information needs of stakeholders ($\bar{x} = 3.58$)
2. Environmental scanning to identify issues and the stakeholders involved ($\bar{x} = 3.19$)
3. Evaluating financial communication campaigns/programmes ($\bar{x} = 3.08$)

Figure 8.6 Importance of the involvement of consultants in various aspects of the financial communication process
Before any further conclusions can be made, it is necessary to compare the results of Questions 16, 17 and 18, variable for variable. This is done in Figures 8.7 - 8.13.

- **Environmental scanning to identify issues and the stakeholders involved**
  This variable was one of the three with the highest mean values in Question 17 (most senior communication manager). From Figure 8.7 it is also evident that the involvement of the most senior communication manager (PR / CC) is regarded as more important than the involvement of the other two role players. It must be noted, though, that the mean value for this variable in Question 18, was the second highest. Thus, the contribution of consultants (CO) is recognised, but is not as important as the involvement of the other two role players.

![Figure 8.7 Importance of involvement in environmental scanning](image)
Research to identify the financial information needs of stakeholders

This variable yielded the highest mean value in Question 16 (most senior financial manager - FM in Figure 8.8). It was also higher than the mean values for the same variable in Questions 17 and 18. However, the mean value for this variable in Question 17 (most senior communication manager) is only slightly lower than in Question 16 (see Figure 8.8). It can therefore be said that the involvement of both the most senior financial manager and the most senior communication manager is regarded as important in this aspect of financial communication. Although this variable obtained a much lower mean value in Question 18 (consultant), its mean was the highest, in comparison with the other variables in this question. This indicates that consultants are involved in this aspect of financial communication, but to a lesser extent than the other role players.

Figure 8.8 Importance of involvement in research to identify financial information needs
Formulation of a financial communication strategy
Interesting results were obtained from this variable (see Figure 8.9). In the first place, this variable yielded the third highest mean value in Question 16 (most senior financial manager). However, the mean value for this variable is higher in Question 17 (most senior communication manager), but only the fifth highest in that particular question. It can therefore be concluded that the involvement of the most senior financial manager in this aspect of financial communication is important in comparison with other aspects, but not in comparison with the most senior communication manager's involvement.

Figure 8.9 Importance of involvement in the formulation of a financial communication strategy
Planning financial communication campaigns / programmes

In comparison with the other two role players, the involvement of the most senior communication manager is the most important in this aspect (see Figure 8.10). The variable also obtained the second highest mean value in Question 17. Thus, the involvement of the most senior communication manager is very important in the planning of financial communication campaigns/programmes.

Figure 8.10 Importance of involvement in planning financial communication campaigns / programmes
Formulation of financial content messages

It is evident from Figure 8.4, as well as from Figure 8.11 below that the formulation of financial content messages is regarded as the main responsibility of the most senior financial manager. This variable obtained the highest mean value in Question 16 and is also higher than the mean values for the same variable in Questions 17 and 18.

Figure 8.11 Importance of involvement in formulation of financial content messages
Implementing financial communication campaigns / programmes

This is the most important aspect in terms of the most senior communication manager’s involvement in financial communication (see Figures 8.5 and 8.12). From the relatively low mean values for this variable in the other two questions it is apparent that implementing financial communication campaigns/programmes is seen as the main responsibility of the most senior communication manager.

Figure 8.12 Importance of involvement in implementing financial communication campaigns / programmes
Evaluating financial communication campaigns / programmes
This variable obtained the second highest rating in Question 18 (consultants), but the mean value is still significantly lower than the one scored on the same variable in Question 17 (see Figure 8.13). In comparison with the other variables in Question 17, the involvement of the most senior public relations/corporate communication manager is not considered as very important. However, the mean value of 5.00 in Question 17 is relatively high, and much higher than the one in Question 16. In other words, the involvement of the most senior communication manager is considered to be more important, than the involvement of the other two role players (most senior financial manager and consultants).

Figure 8.13 Importance of involvement in the evaluation of financial communication campaigns / programmes
Based on the foregoing, it is possible to assign specific aspects of the financial communication process to specific role players. This argument is set out in Table 8.5.

Table 8.5  Assignment of roles to specific role players

<table>
<thead>
<tr>
<th>ASPECT OF FINANCIAL COMMUNICATION</th>
<th>ROLE PLAYER</th>
</tr>
</thead>
</table>
| Environmental scanning to identify issues and the stakeholders involved | 1. Most senior communication manager  
2. (Consultants) |
| Research to identify financial information needs                       | 1. Most senior financial manager  
2. Most senior communication manager  
3. (Consultants) |
| Formulation of a financial communication strategy                      | 1. Most senior communication manager  
2. Most senior financial manager |
| Planning financial communication campaigns/programmes                  | 1. Most senior communication manager |
| Formulation of financial content messages                              | 1. Most senior financial manager |
| Implementing financial communication campaigns/programmes              | 1. Most senior communication manager |
| Evaluating financial communication campaigns/programmes                | 1. Most senior communication manager  
2. (Consultants) |

Note that “consultants” are put in brackets next to the three variables that yielded the highest mean values in Question 18. The brackets indicate that the involvement of consultants in these aspects of financial communication is not considered to be very important.
8.2.3 Additional perspectives regarding the management of financial communication

The isolation of the Public Relations function from financial communication efforts is discussed in the literature review. In Chapter 5, it is suggested that the public relations function should be “brought back into the picture”. This is to ensure a more inclusive approach to financial communication.

In the preceding section it was shown that the involvement of the most senior communication manager was considered to be most important in five of the seven aspects (variables) of financial communication. In one aspect (research to identify stakeholder financial information needs) this executive’s involvement was considered almost as important as of that of the most senior financial manager. The only aspect where the communication executive’s involvement was not considered to be important, was in the formulation of financial content messages.

These results came as a surprise, because they contradict the public relations and investor relations literature. It must be borne in mind, though, that only a small number of companies of the total population participated in this survey. A more extensive survey might yield different results. Nevertheless, when the questionnaire was designed, it was anticipated that the results would reflect the same trend as described in the literature - limited involvement of the communication manager in the financial communication process. Therefore, Questions 3, 4, 5 and 6 were included to investigate the position and role of this executive in the organisation. The initial idea was to draw comparisons between the results of these questions and the results of Questions 16, 17 and 18, in order to explain the limited involvement of the communication manager.

However, the results of Question 17 (involvement of the most senior communication manager) are still very interesting (see Figure 8.5). The seven variables used in Questions 16, 17 and 18 can be roughly related to the three roles of public relations
practitioners, as identified by Steyn and Puth (2000:20-21). The strategist role involves monitoring (or scanning) the environment for developments that might have an effect on the organisation and its relationships with stakeholders. The second role, that of the manager, involves developing a communication strategy and policy for the organisation, as well as deciding what should be communicated to stakeholders. Campaigns and programmes are then derived from the strategy. During and after implementation, these campaigns and programmes also need to be evaluated. The technician role involves the actual implementation of the campaigns and programmes. Table 8.6 indicates which variable represented which role, as well as the mean values for each.

Table 8.6 Roles of the most senior communication manager in financial communication

<table>
<thead>
<tr>
<th>RANK IN TERMS OF IMPORTANCE</th>
<th>VARIABLE</th>
<th>( \bar{x} )</th>
<th>ROLE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Implementing financial communication campaigns/programmes</td>
<td>5,37</td>
<td>Technician</td>
</tr>
<tr>
<td>2</td>
<td>Planning financial communication campaigns/programmes</td>
<td>5,13</td>
<td>Manager</td>
</tr>
<tr>
<td>3</td>
<td>Environmental scanning to identify issues and the stakeholders involved</td>
<td>5,07</td>
<td>Strategist</td>
</tr>
<tr>
<td>4</td>
<td>Evaluating financial communication campaigns/programmes</td>
<td>5,00</td>
<td>Manager</td>
</tr>
<tr>
<td>5</td>
<td>Formulation of a financial communication strategy</td>
<td>4,93</td>
<td>Manager</td>
</tr>
<tr>
<td>6</td>
<td>Research to identify financial information needs</td>
<td>4,71</td>
<td>Strategist</td>
</tr>
<tr>
<td>7</td>
<td>Formulation of financial content messages</td>
<td>4,47</td>
<td>Manager</td>
</tr>
</tbody>
</table>

Although the mean values for all seven variables are relatively close to each other, it is interesting that the respondents indicated that the most important role of the most senior communication manager in financial communication, is that of technician. It must be noted, however, that variables representing the roles of manager and strategist obtained the second and third highest values respectively.
Why did respondents regard the technician role of the most senior communication manager as so important? Did it have anything to do with the overall position and role of this executive in the company? The results of Questions 3, 4, 5 and 6 might shed some light on this question.

In Question 3, respondents had to indicate which department co-ordinated their company’s public relations/corporate communication efforts. The main purpose of the question was to establish whether there was a separate department, or whether another department took responsibility for public relations/corporate communication. Frequencies and percentages were calculated for each variable. The results (in percentages) are depicted in Figure 8.14.

The vast majority of respondents indicated that a separate department, such as Corporate Communication (50,0%) or Public Relations (7,9%) co-ordinated the company’s communication. None of the respondents selected the “Public Affairs” option, although one respondent referred to the Corporate Affairs department under the “Other” option. The Marketing department co-ordinated public relations/corporate communication efforts in 15,8% of the cases, while only 2,6% of respondents indicated that Public Relations/Corporate Communication was a special section within the Marketing department.
The “Other” option was chosen by 23,7% of respondents. One respondent indicated that a combination of the CEO and the Marketing department co-ordinated the company’s public relations/corporate communication efforts. Two other respondents also made reference to the role of members of the Board of Directors. In three cases, responsibility for public relations / corporate communication efforts was outsourced to consultants. Two responses were quite puzzling - it was indicated that the Financial Director took responsibility for public relations / corporate communication efforts. However, both these respondents were Financial Directors. They probably misread or misunderstood the question and thought that it applied to financial communication.
It can therefore be concluded that the Public Relations / Corporate Communication functions are regarded as important enough to justify a separate department.

The purpose of Question 4 was to establish the level of seniority of the most senior communication manager. Respondents had to indicate whether this person was a director, a senior manager or a manager. A distinction was made between public relations, corporate communication and public affairs on all three levels. However, this question proved to be problematic. Titles of communication executives vary widely. Therefore, 42,1% of respondents chose the “Other” option and provided a wide array of titles. When analysing the results it was therefore decided to focus only on the level of seniority and not on the titles. Responses therefore had to be recoded in the SPSS data file. The first nine categories (variables) were collapsed into three new categories, namely “Director”, “Senior manager” and “Manager”. Three additional categories were created to accommodate the responses to the “Other” option, namely “Director - Other”, “Manager - Other” and “Outsourced”. These categories yielded nominal data and frequencies and percentages were therefore calculated for each. The results (in percentages) are depicted in Figure 8.15.
The red, blue and green slices of the pie chart in Figure 8.15 represent the level of seniority of the most senior public relations / corporate communication / public affairs manager. Only a limited number of these managers are directors (13.5%), while the majority are senior managers (32.4%). Interestingly, 32.4% of the respondents indicated that other directors took responsibility for the coordination of communication efforts. This is more than double the number of respondents that indicated that a director of a purely communication function took responsibility. The responses included the Marketing Director, the Executive Chairman, and the Financial Director. Once again, the respondents that provided the latter piece of information were all Financial Directors or Managers and probably misread or misunderstood the question.
It is obvious from the above that Communication Directors are still in the minority. Most managers of communication functions are senior managers. When designing the questionnaire, results of this kind were anticipated. However, it was also anticipated that the involvement of the most senior communication manager in financial communication would be limited. The results of Question 17 suggest otherwise. Therefore, instead of focusing on the negative side of the results, the following can be said:

Despite the fact that most of the communication managers of the companies surveyed are not directors, their involvement is generally regarded as important in most of the aspects of financial communication.

Respondents that indicated that the person in charge of the company’s communication is a senior manager or manager were directed to Question 5, a follow-up question. In this question, respondents had to indicate who was the immediate supervisor of the most senior communication manager. The results (in percentages) are depicted in Figure 8.16.
The most important observation that can be made from Figure 8.16 is that although a large number of communication managers are not directors, they all report to a Board member. The majority report directly to the Chief Executive Officer.

Besides determining the position of the most senior communication manager in the company hierarchy, it is also important to determine the role played by this individual. In Question 6, respondents had to indicate to what extent the most senior communication manager assumed the role of strategist, manager and technician. These roles were explained in a previous section. The results of the analysis are summarised in Table 8.7. The variables are ranked from the most important to the least important. It is also indicated which variables represented which role.
Table 8.7 The roles of the most senior communication manager

<table>
<thead>
<tr>
<th>RANK</th>
<th>VARIABLE</th>
<th>ROLE</th>
<th>( \bar{x} )</th>
<th>( s )</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Developing a communication strategy for the company</td>
<td>Manager</td>
<td>5,97</td>
<td>1,404</td>
</tr>
<tr>
<td>2</td>
<td>Deciding what should be communicated to stakeholders</td>
<td>Manager</td>
<td>5,78</td>
<td>1,396</td>
</tr>
<tr>
<td>3</td>
<td>Implementing communication plans/campaigns</td>
<td>Technician</td>
<td>5,58</td>
<td>1,461</td>
</tr>
<tr>
<td>4</td>
<td>Monitoring environmental developments</td>
<td>Strategist</td>
<td>5,11</td>
<td>1,785</td>
</tr>
<tr>
<td>5</td>
<td>Providing inputs into the company’s strategy</td>
<td>Strategist</td>
<td>4,94</td>
<td>1,689</td>
</tr>
</tbody>
</table>

The *manager* role was regarded as the most important, with the *technician* role close behind. Although the *strategist* role was also regarded as relatively important, it was regarded as the least important in comparison with the other two roles. It must be noted, though, that the diversity of the respondents in terms of position/affiliation in the company influenced the results to a certain extent. See Appendix 9 for a summary of the mean and standard deviation values for each variable, according to position/affiliation in the company. However, in most cases, respondents in the same category had very different opinions about each variable. Interestingly, respondents in the “communication” category rated only one role higher than respondents in the other categories, namely “Providing inputs into the company’s strategy formulation process”. This probably means that communication managers themselves recognise their role as strategist, but that Top Management and members of other functions do not.
When one compares the results of Question 17 (as portrayed in Table 8.7) with the results of Question 6 (in Table 8.6), the following observation can be made:

The most senior communication manager’s roles as manager and technician were considered to be more important than his/her role as strategist (both in terms of a company’s overall communication, and financial communication in particular). A tentative conclusion could therefore be that the most senior communication manager’s position and role in the company is related to his/her role in the financial communication process.

8.3 Conclusion

The following research objectives were addressed in this chapter:

5. To use empirical research to establish whether a number of South African companies listed on the Johannesburg Stock Exchange (JSE):
   • follow an integrated approach (in terms of management and organisation) to financial communication.

6. To identify similarities and/or differences between the results of this study and results of three similar studies conducted previously in the USA, United Kingdom and Europe.

Regarding Objective 5, the following conclusions can be made:

• The fact that a cross-functional team co-ordinates financial communication in 36,8% of the cases, proves that there are indications of an integrated approach to financial communication. However, the overall results suggest that there is still a lack of integration.

• The roles of both the Accounting / Financial function and the Communication function (Public Relations / Corporate Communication / Public Affairs) in financial communication, are recognised. However, the Accounting / Financial function
still dominates. The latter observation corresponds with the theory, as well as results from previous studies (see the results of Questions 11 and 14).

• Results concerning the involvement of the most senior communication manager contradict contemporary public relations and investor relations theory. Instead of limited or no involvement, the results of Question 17 suggest that the involvement of this executive is regarded as very important in most aspects of financial communication.

• Of particular interest is the fact that the involvement of the most senior financial manager was considered to be more important than the involvement of the most senior communication manager, in only two aspects. These are 1) research to identify stakeholder financial information needs and 2) the formulation of financial content messages. Thus, in terms of the management and organisation of financial communication, the Accounting / Financial function and executive still dominate. However, in terms of the various aspects of the financial communication process, the involvement of the most senior communication manager seems to be more important.

Regarding Objective 6, it was found that there are indeed similarities between the results of this study and the results of the studies conducted by Marston (1996), Marston and Straker (2001) and Petersen and Martin (2001). For example, in all four studies, either the largest or second largest percentage of respondents indicated that the Financial department takes responsibility for the coordination of financial communication efforts. The main difference is that this study included the variable “cross-functional” team in the question about the organisation of financial communication, while none of the three overseas studies did.

Finally, it must be constantly borne in mind that this study is exploratory in nature. The results obtained cannot be generalised to the entire population of South African companies listed on the JSE. However, in combination with the results reported in Chapter 7 and the conceptual model for an inclusive and integrated approach to
financial communication, these results provide a broad framework, or point of departure, for future research.
I

Reality problem situation

Chapter 1
Orientation and background

Chapter 2
Financial communication – an investor relations perspective

Chapter 3
Financial communication – an accounting perspective

Chapter 6
Research methodology

Chapter 7
Research findings – inclusive approach

Chapter 8
Research findings – integrated approach

II

Conceptual model

Chapter 4
Theoretical justification for an inclusive approach to financial communication

Chapter 5
A conceptual model for an inclusive and integrated approach to financial communication

Chapter 9
Conclusion and recommendations

Chapter 2
Financial communication – an investor relations perspective

Chapter 3
Financial communication – an accounting perspective
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.
LIST OF REFERENCES


Varey, R.J. & White, J. 2000. The corporate communication system of


APPENDIX 1

- Cover letter (e-mail) to Chief Executive Officers (CEOs), Managing Directors (MDs) and Financial Directors (FDs)
Dear [respondent name]

Financial communication: who's responsibility is it? Corporate communication? Accounting? How does [company name] Ltd approach the management of financial communication?

My name is Norlé Schoonraad. I am currently doing research on how South African companies approach the management of financial communication. I will appreciate it if you would complete a short questionnaire by clicking on the following URL:

http://otter.unisa.ac.za/fincomsurvey.html

The questionnaire can be optimally viewed in Internet Explorer, but can also be accessed via Netscape.

I realise that you are extremely busy and constantly bombarded by requests from researchers to complete questionnaires. This questionnaire consists of 19 questions, which will take approximately 15 minutes to complete. Please submit the questionnaire before 29 August 2003.

After completing the questionnaire, click on "Submit". An e-mail containing your inputs will automatically be generated and sent directly to my e-mail address (schoon@unisa.ac.za). The information you provide will be treated as confidential and names of respondents and companies will be kept anonymous in the research report.

Please note: if you are unable to submit the questionnaire via the Internet, you are more than welcome to fax it to 012 429 3346.

The questionnaire offers the option to request a report of the research results, which will be made available in January 2004.

Yours sincerely

Norlé Schoonraad (ms)
Lecturer: Department of Communication Science
Unisa

Student: M Com (Communication Management)
Department of Marketing and Communication Management
University of Pretoria

Supervisors:
Prof Anske Grobler
Department of Marketing and Communication Management
University of Pretoria
Tel: 012 420 2306

Prof Daan Gouws
Department of Accounting and Finance
University of Pretoria
Tel: 012 420 3411
APPENDIX 2

- Cover letter (e-mail) to Company Secretaries and Information Helpdesk
Dear [contact name]

I will appreciate it if you will bring the following request to the attention of the Financial Director, or the person in charge of your company's financial communication.

Thank you very much

Norlé Schoonraad (ms)
Lecturer: Department of Communication Science
UNISA

Financial communication: who's responsibility is it? Corporate communication? Accounting? How does [company name] Ltd approach the management of financial communication?

My name is Norlé Schoonraad. I am currently doing research on how South African companies approach the management of financial communication. I will appreciate it if you would complete a short questionnaire by clicking on the following URL:

http://otter.unisa.ac.za/fincomsurvey.html

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I realise that you are extremely busy and constantly bombarded by requests from researchers to complete questionnaires. This questionnaire consists of 19 questions, which will take approximately 15 minutes to complete. Please submit the questionnaire before 29 August 2003.

After completing the questionnaire, click on "Submit". An e-mail containing your inputs will automatically be generated and sent directly to my e-mail address (schoon@unisa.ac.za). The information you provide will be treated as confidential and names of respondents and companies will be kept anonymous in the research report.

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Prof Daan Gouws  
Department of Accounting and Finance  
University of Pretoria  
Tel: 012 420 3411

Norlé Schoonraad  
Department of Communication Science  
UNISA  
schoon@unisa.ac.za  
Tel: (012) 429-6323
APPENDIX 3

- Questionnaire in html and MS Word format
WELCOME TO THE FINANCIAL COMMUNICATION SURVEY

- This questionnaire has been designed in such a way that it should take you approximately 15 minutes to complete it.
- The questionnaire consists of 19 questions.
- Please select the option that is relevant to your company by clicking on the appropriate option in the space provided.
- If none of the options accurately describes your company’s approach or situation, please use the “Other” option and type in brief details.
- Questions marked with an asterisk (*) are required please.

* 1. Please fill in your company’s name.


* 2. Please fill in your position in the company.


* 3. Please choose the statement that best describes the way in which your company’s public relations/corporate communication efforts are coordinated.

My company’s public relations/corporate communication efforts are ...

- coordinated by the Public Relations department.
- coordinated by the Corporate Communication department.
- coordinated by the Public Affairs department.
- coordinated by the Marketing department.
- coordinated by a special section within the Marketing department.
- Other (Please specify)
4. What is the title of the most senior public relations / corporate communication manager?

- Director: Public Relations - Proceed to Question 6
- Director: Corporate Communication - Proceed to Question 6
- Director: Public Affairs - Proceed to Question 6
- Senior manager: Public Relations - Proceed to Question 5
- Senior manager: Corporate Communication - Proceed to Question 5
- Senior manager: Public Affairs - Proceed to Question 5
- Manager: Public Relations - Proceed to Question 5
- Manager: Corporate Communication - Proceed to Question 5
- Manager: Public Affairs - Proceed to Question 5
- Other (Please specify)

Proceed to Question 6

5. If the most senior public relations / corporate communication manager is NOT a director, who is his/her immediate supervisor?

- Chief Executive Officer
- Executive Chairman
- Managing Director
- Director of Marketing
- Senior manager: Marketing
- Other (please specify)

Proceed to Question 6

6. On a scale of 1 (not important at all) to 7 (very important), please indicate how important or unimportant the following activities are, as part of the responsibilities of the most senior public relations / corporate communication manager in your company.

<table>
<thead>
<tr>
<th>Activity</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developing a communication strategy for the company.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>Monitoring environmental developments that might affect the company's strategy.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>Deciding what should be communicated to stakeholders.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>Implementing communication plans/campaigns.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>Providing inputs into the company's strategy formulation process.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>7</td>
</tr>
</tbody>
</table>
7. Please provide your definition of the concept “financial communication” in the space provided below. (Not more than 50 words.)

8. On a scale of 1 (not important at all) to 7 (very important), please indicate how important or unimportant it is to your company to engage in financial communication with each of the following stakeholder groups:

<table>
<thead>
<tr>
<th>Stakeholder Group</th>
<th>1</th>
<th>2</th>
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<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
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<tbody>
<tr>
<td>Banking institutions</td>
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<td>Employees</td>
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<tr>
<td>Environmental pressure groups</td>
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<td>Financial analysts</td>
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<td>General public</td>
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<tr>
<td>Institutional shareholders</td>
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<td>Individual shareholders</td>
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<td>Local communities</td>
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<td>Managers</td>
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<td>Suppliers</td>
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<td>Trade unions</td>
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<tr>
<td>Other</td>
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</tbody>
</table>

Please specify:

9. On a scale of 1 (strongly disagree) to 7 (strongly agree), please indicate to what extent do you disagree or agree with the following statement:

Adherence to statutory and JSE requirements is adequate to meet the financial communication needs of stakeholders.

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
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</tbody>
</table>
10. If you disagreed with the statement in Question 9 (if you chose options 1, 2 or 3), please state your reasons for disagreeing. (Not more than 50 words.)


11. How are your company’s financial communication efforts coordinated? Select only one option.

- By a separate department - Proceed to Questions 12 & 13
- By a cross-functional team - Proceed to Questions 14 & 15
- By the Financial department - Proceed to Question 16
- By the Public Relations department - Proceed to Question 16
- By the Corporate Communication department - Proceed to Question 16
- By the Marketing department - Proceed to Question 16
- By the Legal department - Proceed to Question 16
- Other (Please specify) Proceed to Question 16

12. If your company’s financial communication efforts are coordinated by a separate department, please type in the name of the department in the space provided below.


13. If a separate department coordinates your company’s financial communication efforts, what is the main field of expertise of the manager/head of this department? Select only one option.

- Financial Accounting
- Economics
- Public Relations
- Marketing
- Investment
- Other (Please specify) Proceed to Question 16.
14. If a cross-functional team coordinates your company’s financial communication efforts, please indicate which of the following functions are represented in this team.

Select ALL the appropriate options.

- Marketing
- Public Relations
- Corporate Communication
- Public Affairs
- Accounting
- Legal
- Other (Please specify)

15. Who is the leader of this cross-functional team?

- Head of Marketing
- Head of Public Relations
- Head of Corporate Communication
- Head of Public Affairs
- Head of Financial Department
- Head of Legal Department
- No appointed leader
- Other (Please specify)

Continue with Question 16
*16. On a scale of 1 (0% responsibility) to 7 (100% responsibility), please indicate to what extent does the most senior financial manager take responsibility for the following aspects of financial communication:

<table>
<thead>
<tr>
<th>Aspect</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental scanning to identify issues and the stakeholders involved</td>
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<td>Research to identify the financial information needs of stakeholders</td>
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<td>Formulation of a financial communication strategy</td>
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<td>Planning financial communication campaigns / programmes</td>
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<td>Formulation of financial content messages</td>
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<td>Implementing financial communication campaigns / programmes</td>
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<td>Evaluating financial communication campaigns / programmes</td>
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</table>

*17. On a scale of 1 (0% responsibility) to 7 (100% responsibility), please indicate to what extent does the most senior public relations / corporate communication manager take responsibility for the following aspects of financial communication:

<table>
<thead>
<tr>
<th>Aspect</th>
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<th>2</th>
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<tr>
<td>Environmental scanning to identify issues and the stakeholders involved</td>
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<td>Research to identify the financial information needs of stakeholders</td>
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<td>Formulation of a financial communication strategy</td>
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18. On a scale of 1 (0% outsourced) to 7 (100% outsourced), please indicate to what extent does your company outsource the following aspects of financial communication to consultants:

<table>
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<tr>
<th>Aspect</th>
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<th>3</th>
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<tr>
<td>Environmental scanning to identify issues and the stakeholders involved</td>
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</tbody>
</table>

*19. Do you wish to receive a report of the research results?

☐ Yes please
☐ No thank you

Thank you for your time and effort. It is much appreciated!
Financial Communication Survey.

Your browser either doesn't support the JavaScript on this page or you have configured it not to evaluate scripts. Because of this you won't get a second chance to check your entries so please check the form carefully before selecting Send.

WELCOME TO THE FINANCIAL COMMUNICATION SURVEY

This questionnaire has been designed in such a way that it should take you approximately 15 minutes to complete it. This questionnaire consists of 19 questions. Please select the option that is relevant to your company by clicking on the appropriate option in the space provided. If none of the options accurately describes your company's approach or situation, please use the "Other" option and type in brief details. Questions marked with an asterisk (*) are required please. After completing the questionnaire, click on "Submit".

* 1. Please fill in your company's name.

* 2. Please fill in your position in the company.

* 3. Please choose the statement that best describes the way in which your company's public relations / corporate communication efforts are coordinated.

My company's public relations / corporate communication efforts are ...

- coordinated by the Public Relations department.
- coordinated by the Corporate Communication department.
- coordinated by the Public Affairs department.
- coordinated by the Marketing department.
- coordinated by a special section within the Marketing department.

Please specify
4. What is the title of the most senior public relations / corporate communication manager?

| Director: Public Relations - Proceed to Question 6 |
| Director: Corporate Communication - Proceed to Question 6 |

Please specify

5. If the most senior public relations / corporate communication manager is NOT a director, who is his/her immediate supervisor?

| Chief Executive Officer |
| Executive Chairman |
| Managing Director |
| Director of Marketing |
| Senior Manager: Corporate Communication - Proceed to Question 5 |
| Other |

Please specify

6. On a scale of 1 (not important at all) to 7 (very important), please indicate how important or unimportant the following activities are, as part of the responsibilities of the most senior public relations / corporate communication manager in your company.

| Developing a communication strategy for the company. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Monitoring environmental developments that might affect the company's strategy. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Deciding what should be communicated to stakeholders. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Implementing communication plans / campaigns. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Providing inputs into the company's strategy formulation process. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
* 7. Please provide your definition of the concept "financial communication" in the space provided below. (Not more than 50 words.)


* 8. On a scale of 1 (not important at all) to 7 (very important), please indicate how important or unimportant it is to your company to engage in financial communication with each of the following stakeholder groups:

<table>
<thead>
<tr>
<th>Stakeholder Group</th>
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<th>2</th>
<th>3</th>
<th>4</th>
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<th>6</th>
<th>7</th>
</tr>
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<tbody>
<tr>
<td>Banking institutions</td>
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<td>Customers</td>
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<td>Employees</td>
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<td>Environmental pressure groups</td>
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<td>Financial analysts</td>
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<td>General public</td>
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<td>Institutional shareholders</td>
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<td>Local communities</td>
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<td>Managers</td>
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<td>Media</td>
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<td>Suppliers</td>
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<td>Trade unions</td>
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<tr>
<td>Other - Please specify</td>
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</tr>
</tbody>
</table>

* 9. On a scale of 1 (strongly disagree) to 7 (strongly agree), please indicate to what extent do you disagree or agree with the following statement:

Adherence to statutory and JSE requirements is adequate to meet the financial communication needs of stakeholders.
10. If you disagreed with the statement in Question 9 (if you chose options 1, 2 or 3), please state your reasons for disagreeing. 
(Not more than 50 words.)

11. How are your company's financial communication efforts coordinated? 
Select only one option.

- By a separate department - Proceed to Questions 12 & 13
- By a cross-functional team - Proceed to Questions 14 & 15
- By the Financial department - Proceed to Question 16
- By the Public Relations department - Proceed to Question 16
- By the Corporate Communication department - Proceed to Question 16
- By the Marketing department - Proceed to Question 16

Please specify

12. If your company's financial communication efforts are coordinated by a separate department, please provide the name of the department in the space provided below.

13. If a separate department coordinates your company's financial communication efforts, what is the main field of expertise of the manager / head of this department? 
Select only one option.

- Financial Accounting
- Economics
- Public Relations
- Marketing
- Investment
- Other

Please specify

Proceed to Question 16.
14. If a cross-functional team coordinates your company's financial communication efforts, please indicate which of the following functions are represented in this team. Select ALL the appropriate options.

☐ Marketing
☐ Public Relations
☐ Corporate Communication
☐ Public Affairs
☐ Accounting

Please specify

15. Who is the leader of this cross-functional team?

☐ Head of Marketing
☐ Head of Public Relations
☐ Head of Corporate Communication
☐ Head of Public Affairs
☐ Head of Financial Department
☐ Head of Legal Department

Please specify

Continue with Question 16.

* 16. On a scale of 1 (0% responsibility) to 7 (100% responsibility), please indicate to what extent does the most senior financial manager take responsibility for the following aspects of financial communication:

<table>
<thead>
<tr>
<th>Aspect</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental scanning to identify issues and the stakeholders involved.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Research to identify the financial information needs of stakeholders.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Formulation of a financial communication strategy.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Planning financial communication campaigns / programmes.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Formulation of financial content messages.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Implementing financial communication campaigns / programmes.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Evaluating financial communication campaigns / programmes.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* 17. On a scale of 1 (0% responsibility) to 7 (100% responsibility), please indicate to what extent does the most senior public relations / corporate communication manager take responsibility for the following aspects of

Page 5
**financial communication:**

<table>
<thead>
<tr>
<th>Activity</th>
<th>Options</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental scanning to identify issues and the stakeholders involved.</td>
<td>1 2 3 4 5 6 7</td>
</tr>
<tr>
<td>Research to identify the financial information needs of stakeholders.</td>
<td>1 2 3 4 5 6 7</td>
</tr>
<tr>
<td>Formulation of a financial communication strategy.</td>
<td>1 2 3 4 5 6 7</td>
</tr>
<tr>
<td>Planning financial communication campaigns / programmes.</td>
<td>1 2 3 4 5 6 7</td>
</tr>
<tr>
<td>Formulation of financial content messages.</td>
<td>1 2 3 4 5 6 7</td>
</tr>
<tr>
<td>Implementing financial communication campaigns / programmes.</td>
<td>1 2 3 4 5 6 7</td>
</tr>
<tr>
<td>Evaluating financial communication campaigns / programmes.</td>
<td>1 2 3 4 5 6 7</td>
</tr>
</tbody>
</table>

* 18. On a scale of 1 (0% outsourced) to 7 (100% outsourced), please indicate to what extent does your company outsource the following aspects of financial communication to consultants:

<table>
<thead>
<tr>
<th>Activity</th>
<th>Options</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental scanning to identify issues and the stakeholders involved.</td>
<td>1 2 3 4 5 6 7</td>
</tr>
<tr>
<td>Research to identify the financial information needs of stakeholders.</td>
<td>1 2 3 4 5 6 7</td>
</tr>
<tr>
<td>Formulation of a financial communication strategy.</td>
<td>1 2 3 4 5 6 7</td>
</tr>
<tr>
<td>Planning financial communication campaigns / programmes.</td>
<td>1 2 3 4 5 6 7</td>
</tr>
<tr>
<td>Formulation of financial content messages.</td>
<td>1 2 3 4 5 6 7</td>
</tr>
<tr>
<td>Implementing financial communication campaigns / programmes.</td>
<td>1 2 3 4 5 6 7</td>
</tr>
<tr>
<td>Evaluating financial communication campaigns / programmes.</td>
<td>1 2 3 4 5 6 7</td>
</tr>
</tbody>
</table>

* 19. Do you wish to receive a report of the research results?  

[ ] Yes please  [ ] No thank you

Click the "submit" button once you are sure that the information supplied is correct.  
Click "reset" to clear and start over.
Thank you for your time and effort. It is much appreciated.
APPENDIX 4

- Example of e-mail message containing respondent’s coded responses
Q1=XXXXX
Q2=Director
Q3=6
Q3S=Co-ordinated by the PR company owned by the Group
Q4=10
Q4S=Group Communications Director
Q5=12
Q5S=12
Q6a=4
Q6b=7
Q6c=5
Q6d=3
Q6e=6
Q7=Communicating information which relates to the company's financial performance or which may have an impact on the way the company is perceived by the investing public
Q8a=5
Q8b=3
Q8c=5
Q8d=3
Q8e=7
Q8f=2
Q8g=1
Q8h=7
Q8i=7
Q8j=1
Q8k=6
Q8l=7
Q8m=2
Q8n=11
Q8o=2
Q8S=11
Q9=2 Q10=A more proactive strategy is required
Q11=2
Q11S=12
Q12=12
Q13=12
Q13S=12
Q14=7
Q14S=MD, Finance, Group Communications, advisors
Q15=8
Q15S=MD
Q16a=3
Q16b=4
Q16c=2
Q16d=2
Q16e=3
Q16f=3
Q16g=2
Q17a=4
Q17b=5
Q17c=5
Q17d=5
Q17e=4
Q17f=5
Q17g=4
Q18a=1
Q18b=2
Q18c=1
Q18d=1
Q18e=1
Q18f=1
Q18g=1
Q19=1
Categories derived from content analysis of definitions of financial communication
### Category 1: Descriptors of action or process

<table>
<thead>
<tr>
<th>RECORD NR</th>
<th>RESPONSE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Sharing of information</td>
</tr>
<tr>
<td>3; 4; 5; 8; 12; 20; 22; 28; 30; 31; 32; 33; 36</td>
<td>Communication</td>
</tr>
<tr>
<td>7; 13; 15; 21; 26; 29;</td>
<td>providing information</td>
</tr>
<tr>
<td>9</td>
<td>management of interaction between the company and the financial community</td>
</tr>
<tr>
<td>11</td>
<td>two-way process of communicating</td>
</tr>
<tr>
<td>14</td>
<td>activity involving disclosing financial information</td>
</tr>
<tr>
<td>19</td>
<td>transfer of information</td>
</tr>
<tr>
<td>23</td>
<td>specialised communication</td>
</tr>
<tr>
<td>25</td>
<td>external one-way communication</td>
</tr>
<tr>
<td>27</td>
<td>providing insights into the Company’s financial position</td>
</tr>
<tr>
<td>34</td>
<td>publication of results</td>
</tr>
<tr>
<td>37</td>
<td>responding to stakeholders’ and potential stakeholders’ requirements</td>
</tr>
<tr>
<td>38</td>
<td>process of enabling investors to understand and/or interpret</td>
</tr>
</tbody>
</table>
### Category 2: Purpose of financial communication

<table>
<thead>
<tr>
<th>RECORD</th>
<th>RESPONSE</th>
</tr>
</thead>
<tbody>
<tr>
<td>12</td>
<td>Meaningful assessment of the company</td>
</tr>
<tr>
<td>14</td>
<td>To indicate share value and competitive stance</td>
</tr>
<tr>
<td>16</td>
<td>Making the market understand how the balance sheet relates to the industry one operates in</td>
</tr>
<tr>
<td>21</td>
<td>Allows the reader of information to evaluate the sustainability and growth potential of the earnings and business</td>
</tr>
<tr>
<td>26</td>
<td>Shareholders, employees and customers to assess the results and make economic decisions</td>
</tr>
<tr>
<td>34</td>
<td>Proper assessment of the company's rating in terms of market parameters, sustainable development, social responsibility etc</td>
</tr>
<tr>
<td>36</td>
<td>Improve relevant stakeholders' understanding of our business</td>
</tr>
<tr>
<td>37</td>
<td>To enable them [stakeholders and potential stakeholders] to make informed decisions about the company</td>
</tr>
<tr>
<td>38</td>
<td>Enabling investors to comprehensively understand and/or interpret the results and financial implications of company strategy</td>
</tr>
</tbody>
</table>
## Category 3a: Type of information - financial

<table>
<thead>
<tr>
<th>RECORD NR</th>
<th>RESPONSE</th>
</tr>
</thead>
<tbody>
<tr>
<td>3; 8; 12; 14; 24; 29</td>
<td>(relevant/salient) financial information</td>
</tr>
<tr>
<td>7</td>
<td>financial information that stakeholders require</td>
</tr>
<tr>
<td>20</td>
<td>financial information of a material and price sensitive nature</td>
</tr>
<tr>
<td>24; 32; 34; 38</td>
<td>financial results</td>
</tr>
<tr>
<td>4; 5; 11; 15; 25; 30; 31</td>
<td>financial performance</td>
</tr>
<tr>
<td>15; 27; 30; 33</td>
<td>financial position (past, current and future)</td>
</tr>
<tr>
<td>22; 32</td>
<td>company’s prospects</td>
</tr>
<tr>
<td>19</td>
<td>risk factors which could influence the viability of the company</td>
</tr>
<tr>
<td>28</td>
<td>issues which have financial implications for the company</td>
</tr>
<tr>
<td>34</td>
<td>earnings growth</td>
</tr>
<tr>
<td></td>
<td>balance sheet strength</td>
</tr>
<tr>
<td>38</td>
<td>financial implications of company strategy</td>
</tr>
</tbody>
</table>
### Category 3b: Type of information - non-financial

<table>
<thead>
<tr>
<th>RECORD NR</th>
<th>RESPONSE</th>
</tr>
</thead>
<tbody>
<tr>
<td>3; 8; 27; 32; 34</td>
<td>Information related to company strategy</td>
</tr>
<tr>
<td>8</td>
<td>Positioning of the company</td>
</tr>
<tr>
<td>24;34</td>
<td>Corporate governance issues/practices</td>
</tr>
<tr>
<td>25</td>
<td>Expectations of the company and the environment</td>
</tr>
<tr>
<td>27</td>
<td>Key operational indicators</td>
</tr>
<tr>
<td>34</td>
<td>Labour relations</td>
</tr>
<tr>
<td>34</td>
<td>Environmental issues</td>
</tr>
<tr>
<td>24</td>
<td>Corporate actions</td>
</tr>
<tr>
<td>24</td>
<td>General issues</td>
</tr>
</tbody>
</table>

### Category 4: Format of information

<table>
<thead>
<tr>
<th>RECORD</th>
<th>RESPONSE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Explanation and analysis</td>
</tr>
<tr>
<td>12</td>
<td>Adequate detail</td>
</tr>
<tr>
<td>15</td>
<td>Easy-to-access format</td>
</tr>
<tr>
<td>27</td>
<td>Explaining</td>
</tr>
</tbody>
</table>
**Category 5: Characteristics of information**

<table>
<thead>
<tr>
<th>RECORD</th>
<th>RESPONSE</th>
</tr>
</thead>
<tbody>
<tr>
<td>13</td>
<td>Information ... which ... must be provided within specified timeframes</td>
</tr>
<tr>
<td>14</td>
<td>disclosing financial information simultaneously to all stakeholders</td>
</tr>
<tr>
<td>15</td>
<td>up to date relevant comprehensive accurate</td>
</tr>
<tr>
<td>19</td>
<td>honest transparent review ... of information</td>
</tr>
<tr>
<td>26</td>
<td>reliable meaningful information</td>
</tr>
<tr>
<td>29</td>
<td>understandable accurate financial information timeously transparent and equal basis</td>
</tr>
<tr>
<td>34</td>
<td>transparent timeous reliable publication of results</td>
</tr>
<tr>
<td>37</td>
<td>responding to stakeholders<code> and potential stakeholders</code> requirements ... on a consistent and ongoing basis</td>
</tr>
</tbody>
</table>
### Category 6: Impact of information

<table>
<thead>
<tr>
<th>RECORD</th>
<th>RESPONSE</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>other communication that could have a direct impact on the share price</td>
</tr>
<tr>
<td>5</td>
<td>impact on the way the company is perceived by the investing public</td>
</tr>
<tr>
<td>13</td>
<td>[information] which has a financial impact or consequence</td>
</tr>
<tr>
<td>20</td>
<td>information of a material and price sensitive nature</td>
</tr>
<tr>
<td>24</td>
<td>general issues that effect the value of the share price</td>
</tr>
<tr>
<td>28</td>
<td>issues which have financial implications for the company</td>
</tr>
<tr>
<td>34</td>
<td>Care is taken not [sic] disclose competitive information which will harm the business and hence all its stakeholders.</td>
</tr>
</tbody>
</table>

### Category 7: Financial reports

<table>
<thead>
<tr>
<th>RECORD</th>
<th>RESPONSE</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>Required financial reports</td>
</tr>
<tr>
<td>16</td>
<td>Balance sheet</td>
</tr>
<tr>
<td>33</td>
<td>Annual report and commentary thereof</td>
</tr>
</tbody>
</table>

### Category 8: Adherence to regulatory requirements

<table>
<thead>
<tr>
<th>RECORD</th>
<th>RESPONSE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>sharing of information as required by the JSE</td>
</tr>
<tr>
<td>3</td>
<td>all required financial reports</td>
</tr>
<tr>
<td>29</td>
<td>due consideration to all regulatory requirements</td>
</tr>
</tbody>
</table>
**Category 9: Target audiences/publics/stakeholders**

<table>
<thead>
<tr>
<th>RECORD</th>
<th>RESPONSE</th>
</tr>
</thead>
<tbody>
<tr>
<td>3; 7; 8; 11; 12; 14; 15; 19; 20; 25; 29; 30; 32; 34; 36; 37</td>
<td>All (relevant/identified/interested) stakeholders (external and internal)</td>
</tr>
<tr>
<td>28</td>
<td>Financial stakeholders (analysts, the media and investors)</td>
</tr>
<tr>
<td>5; 34</td>
<td>Investing public</td>
</tr>
<tr>
<td>9; 22; 23; 27</td>
<td>Financial / Investment community</td>
</tr>
<tr>
<td>1; 4; 32; 38</td>
<td>Investors</td>
</tr>
<tr>
<td>7; 9; 13; 23; 26</td>
<td>Shareholders</td>
</tr>
<tr>
<td>4; 7; 9; 23; 33</td>
<td>Analysts (buy and sell side)</td>
</tr>
<tr>
<td>4; 9; 32; 33</td>
<td>(Financial) media</td>
</tr>
<tr>
<td>7; 9; 23</td>
<td>Asset / Portfolio managers</td>
</tr>
<tr>
<td>7; 23; 33</td>
<td>Banks / Bankers</td>
</tr>
<tr>
<td>7; 26; 32; 33; 35</td>
<td>Employees</td>
</tr>
<tr>
<td>13; 26; 33</td>
<td>Customers/ Clients</td>
</tr>
<tr>
<td>7; 13</td>
<td>Government/Regulators</td>
</tr>
<tr>
<td>1; 22; 32; 33</td>
<td>(General) public</td>
</tr>
</tbody>
</table>
Financial communication with stakeholders – analysis according to position/functional affiliation
Importance of financial communication with various stakeholder groups – analysis in terms of position/functional affiliation in company

<table>
<thead>
<tr>
<th>Variable</th>
<th>Top Management</th>
<th>Financial Communication</th>
<th>Investor Relations</th>
<th>Marketing</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>( \bar{x} )</td>
<td>( s )</td>
<td>( \bar{x} )</td>
<td>( s )</td>
</tr>
<tr>
<td>Banking institutions</td>
<td>6.10</td>
<td>0.876</td>
<td>5.31</td>
<td>1.653</td>
</tr>
<tr>
<td>Customers</td>
<td>4.70</td>
<td>1.703</td>
<td>4.85</td>
<td>1.625</td>
</tr>
<tr>
<td>Employees</td>
<td>5.70</td>
<td>1.252</td>
<td>5.62</td>
<td>1.121</td>
</tr>
<tr>
<td>Env. pressure groups</td>
<td>2.70</td>
<td>1.252</td>
<td>4.00</td>
<td>2.000</td>
</tr>
<tr>
<td>Financial analysts</td>
<td>6.50</td>
<td>0.850</td>
<td>6.23</td>
<td>1.301</td>
</tr>
<tr>
<td>General public</td>
<td>4.20</td>
<td>1.549</td>
<td>5.31</td>
<td>1.653</td>
</tr>
<tr>
<td>Government</td>
<td>5.30</td>
<td>1.767</td>
<td>4.54</td>
<td>1.613</td>
</tr>
<tr>
<td>Institutional shareholders</td>
<td>6.40</td>
<td>1.075</td>
<td>6.38</td>
<td>1.660</td>
</tr>
<tr>
<td>Individual shareholders</td>
<td>6.20</td>
<td>1.317</td>
<td>6.17</td>
<td>1.193</td>
</tr>
<tr>
<td>Local communities</td>
<td>2.60</td>
<td>1.430</td>
<td>4.15</td>
<td>1.908</td>
</tr>
<tr>
<td>Managers</td>
<td>6.00</td>
<td>0.667</td>
<td>6.00</td>
<td>0.816</td>
</tr>
<tr>
<td>Media</td>
<td>5.80</td>
<td>0.789</td>
<td>5.92</td>
<td>1.320</td>
</tr>
<tr>
<td>Suppliers</td>
<td>3.22</td>
<td>1.716</td>
<td>4.08</td>
<td>1.115</td>
</tr>
<tr>
<td>Trade Unions</td>
<td>3.56</td>
<td>2.068</td>
<td>3.92</td>
<td>1.730</td>
</tr>
</tbody>
</table>
APPENDIX 7

- Distribution of data values for the local communities variable - Question 8
Frequency distribution of data values for the local communities variable

<table>
<thead>
<tr>
<th>DESCRIPTOR</th>
<th>SCALE VALUE</th>
<th>FREQUENCY</th>
<th>%</th>
<th>CUM. %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not important at all</td>
<td>1</td>
<td>4</td>
<td>10,5</td>
<td>10,5</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>6</td>
<td>15,8</td>
<td>26,3</td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>7</td>
<td>18,4</td>
<td>44,7</td>
</tr>
<tr>
<td></td>
<td>4</td>
<td>8</td>
<td>21,1</td>
<td>65,8</td>
</tr>
<tr>
<td></td>
<td>5</td>
<td>7</td>
<td>18,4</td>
<td>84,2</td>
</tr>
<tr>
<td>Very important</td>
<td>6</td>
<td>4</td>
<td>10,5</td>
<td>94,7</td>
</tr>
<tr>
<td></td>
<td>7</td>
<td>2</td>
<td>5,3</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>n = 38</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>
APPENDIX 8

- Adequacy of JSE/statutory requirements – analysis according to position/functional affiliation
Opinions regarding the adequacy of JSE/statutory requirements – analysis in terms of position/functional affiliation in company

<table>
<thead>
<tr>
<th>Descriptor</th>
<th>Scale value</th>
<th>Count</th>
<th>Count</th>
<th>Count</th>
<th>Count</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly disagree</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>2</td>
<td>1</td>
<td>3</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>4</td>
<td></td>
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<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>5</td>
<td>1</td>
<td>1</td>
<td></td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>6</td>
<td></td>
<td>4</td>
<td></td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Strongly agree</td>
<td>7</td>
<td>1</td>
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University of Pretoria etc - Schoonraad, N (2004)
Roles of most senior communication manager – analysis according to position/functional affiliation
Roles of most senior communication manager – analysis according to position/functional affiliation

<table>
<thead>
<tr>
<th>VARIABLE</th>
<th>POSITION/AFFILIATION IN COMPANY</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>TOP MANAGEMENT</td>
</tr>
<tr>
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<td>r</td>
</tr>
<tr>
<td>Developing a communication strategy for the company</td>
<td>5.13</td>
</tr>
<tr>
<td>Monitoring environmental developments</td>
<td>4.75</td>
</tr>
<tr>
<td>Deciding what should be communicated to stakeholders</td>
<td>5.50</td>
</tr>
<tr>
<td>Implementing communication plans/campaigns</td>
<td>4.75</td>
</tr>
<tr>
<td>Providing inputs into the company’s strategy</td>
<td>4.38</td>
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