What is Financial Communication?

FC is a process whereby financial information is enclosed in a package and is channelled and imparted by a sender to a receiver via some medium. All forms of FC require a sender, a message, and an intended recipient, however the receiver need not be present or aware of the sender's intent to communicate at the time of communication in order for the act of FC to occur.

FC requires that all parties have an area of communicative commonality. There are verbal means, such as speech, song, and tone of voice, and there are nonverbal means through media, i.e., pictures, graphics and sound, and writing.
Scope of FC

FC entails all of the strategies, tactics, and tools used to share financial data and recommendations with investors and other interested parties.
Why FC Regarded as Strategic Management Function of a Company?

FC is regarded as a strategic management function of a company because the FC processes integrates finance, communication, marketing and securities laws compliance to enable the most effective two-way communication between a company, the financial community, and other constituencies, which ultimately contributes to a company’ securities achieving fair valuation.
Why Companies Need FC

Companies need FC in order to successfully help shape the dynamic development and evolution of capital markets for themselves and their industries. In return, companies likely will see the benefits in stock price and operating performance.
Why Companies Need FC

Financial stakeholders want a cohesive story about company performance due to the following reasons;

- Companies are providing financial performance information, yet stakeholders continue to find it difficult to get a clear story and are less trusting as a result of the financial crisis and losses.

- There is a major demand not only for financial statements, but also for a broader story about future company performance. Unfortunately, some companies are better at telling a clear story than others.
Cohesive story about company performance;

- The financial information is communicated through many vehicles, including published financials, interim and annual reports, earnings releases, supplementary materials provided to analysts and non-public information provided to credit rating agencies (CRA).

- CRA also focused much more attention on the balance sheet, particularly the debt profile and maturity schedule. Credit rating agencies have shown that they are more willing to move their ratings.
Cohesive story about company performance;

- Management – including CEO and CFO spends a great deal of time preparing the information for release, with support from various staff functions (notably investor relations, treasury, and corporate communications).

- They (various staff functions) have upgraded their own methodologies and analyses and are using these to ensure data is more comparable across companies, sectors and geographies. They are also now more likely to run their own scenario analyses or stress test and to depend less on company management.
Cohesive story about company performance;

- Across the board there is a focus on what’s behind the numbers and desire to know what management didn’t know before the financial crisis. As performance is plummeted in the first half of 2009, sell-side and buy-side analysts sought to validate what management was telling them with additional information.

- Rating agencies and debt investors are now more sensitive to management’s ability to achieve its stated performance target and more willing to adjust their ratings or investments further and faster in reaction to incorrect or misleading information.
Why annual report important?

Annual reports provide a number of people with information about the financial status of an organization. Investors, management and employees review annual reports to gain insight into a company's operation.

✓ Significance - When someone is thinking about purchasing the stock of a corporation he will read the annual report. This report will reveal if the company is improving or declining financially. Current information is compared with information from the previous year.
Why annual report important?

✓ Features - The CEO or president of a company will provide a broad overview that helps provide insight about future plans. An annual report will let you know what the strategic plans are for the company.

✓ Considerations - An annual report includes a balance sheet that provides an in-depth look at the assets that a company owes versus its outstanding debts. If current liabilities exceed the assets then company is insolvent and could be facing financial difficulty.
Why annual report important?

✓ Warning - You can review the cash flow statement to see if the company has more cash coming in than it has going out. A company must manage its cash properly to be successful.

✓ Function - Investors review the annual report to see if they are receiving an adequate return on the money they have invested.

✓ Sales/Expenses - The annual report can give you information about sales and expenses. You can determine if the company was able to reduce its expenses and increase sales.