Towards A Systemic Approach in Financial Communication Research: Evidence from Exploratory Case Studies

Paola Ramassa
University of Genoa
Department of Economics and Business Studies (DIEC)
Via Vivaldi 5
16126 Genova

Abstract

This paper explores financial communication adopting a framework based on information theory elements. In such a perspective, financial communication is intended as a bidirectional and multi-channel process, which can be conveniently analysed as a complex system. The paper aims at exploring that system shifting the focus on the corporate perspective and on activities carried out to prepare messages to be disclosed to the financial community. In particular, the paper investigates activities related to preparation of specific documents and messages so to understand whether companies manage them as a coordinated process. This could shed light over an issue little investigated by existing literature and deliver insights into corporate financial reporting policies, providing a basis for further research. The communication process is explored through multiple case studies, which are not a common choice in disclosure studies even though they are a highly suitable strategy to achieve an in-depth understanding of complex phenomena.

Keywords: financial communication; investor relations; systemic approach; case study.

1. Introduction

Financial reporting has received great attention over the years by both regulators and academics. Voluntary disclosure in particular has been studied from a variety of perspectives, largely focusing on features, determinants and outcomes of specific kinds of communication (e.g. forward looking disclosure) and documents (such as annual reports, earnings announcements etc.). In this paper financial communication is intended as the process where the firm, actual and potential investors, offer, demand and exchange data on corporate financial performance and on events which could affect its prospects (Quagli, 2004). I undertake the analysis of this process according to a framework based on information theory elements: source, coding activity, message, channel, decoding activity, receiver, and feedback (Shannon-Weaver, 1949). According to this approach, the firm is the source of financial communication and carries out coding activities to express its message, which will be delivered through a channel to investors, who are the receivers.

As they get the message, they are also required to perform some decoding activities in order to interpret corporate disclosure. Information is coded into a message, which needs a vehicle and a medium to be delivered, so the channel can be seen as a twofold element: a vehicle and a medium. The former is the document or the event used to disclose information, while the latter represents the medium, which delivers the message (e.g. a telephone call, the corporate website). Receivers react to the message with both investment decisions (market outcomes) and other information flows (feedback). All the process is influenced by its context, which comprises noise, regulation, competitive environment, and other external factors which can affect financial communication. This process view is very attractive for the study of financial communication, since it clearly shows two-way information flows and draws attention to the specific elements of the process.

In this paper, they are regarded as system components, following an approach stemming from von Bertalanffy's general system theory (von Bertalanffy, 1951), which has applications to numerous areas of study. The concept of a system as a combination of interrelated and dynamic components has been widely applied by distinguished scholars of the Italian accounting literature (Zappa, 1937; Giannessi, 1960; Amaduzzi, 1963; Bertini, 1990) and seems to be of particular interest to achieve a joint consideration of the single elements, which appears a convenient approach for research on financial communication policies and strategies (Ramassa, 2011).

In such a perspective, financial communication can be conceived as a complex and dynamic system, which is in its turn composed by three main subsystems. The first subsystem is the company system, consisting of source and coding activities. It relates to the phase of preparation of financial information, which will be then disseminated through different channels. The second subsystem is the message system, which comprises message and channel, which is intended as vehicle and medium. It concerns financial information and means used to deliver it. Finally, the receiver system is composed by decoding activities and receiver and regards the phase of reception and interpretation of financial information by investors.

With reference to those subsystems, so far a rich strand of voluntary disclosure literature has focused on the message system, testing associations between specific messages or vehicles and corporate characteristics or market outcomes, with particular attention to the information content of corporate disclosure. On the other hand, a limited number of researches have investigated receivers' characteristics and information needs (Cascino et al., 2014), also due to the difficulty of covering a representative sample. The company system appears under researched too, with few studies examining the corporate side of the process. The primary purpose of this paper is to explore this subsystem, focusing on how companies prepare messages to be disclosed to the financial community. The analysis of this topic involves both corporate characteristics and coding and preparation procedures, which seem to be of particular interest in order to achieve a deeper understanding of financial reporting. In particular, the paper investigates activities related to preparation and issue of specific documents and contacts with the financial community, in order to understand whether these activities are managed as a coordinated process. I address this issue adopting the case study method, through multiple exploratory case studies on Italian blue chips, which are involved in a complex financial communication system and have a formally established investor relation function. The case selection has been made in order to investigate the topic in firms with high levels of disclosure, according to the idea that it would require some degree of coordination and the adoption of financial communication policies.

This paper attempts to make two kinds of contribution to existing literature. First, the shift of the analysis from the output to the preparation process aims at going beyond a "black box" approach on the corporate side of the process, which is often taken into consideration only through general firm characteristics. This could shed light over an issue less investigated by extant approaches and improve our understanding of financial reporting policies pursued by firms, providing a basis for further research. Second, the adoption of case studies to investigate the financial communication system seems to be of particular interest from a methodological point of view (Ramassa, 2011). Case studies, which are not common in disclosure studies, are suitable when research is aimed at achieving an in-depth understanding and boundaries between phenomenon and context are not clearly evident, which are conditions met in several research areas related to financial communication.

The remainder of the paper is organized as follows. The next section presents a literature review following the above-described systemic view of financial communication, with particular reference to the company subsystem. Section three develops the research question and the method, providing details on the case selection and on the research protocol adopted. Sections four and five present the results of the single cases and evidence arising from the cross-case analysis. The last section provides conclusions and discusses directions for future research.

2. Literature review

Financial communication represents a multidisciplinary topic, which has been explored from several different perspectives. This paper is based on the line of studies focusing on the voluntary disclosure theory (Healy-Palepu, 2001; Beyer et al., 2010), which analyse managers' reporting and disclosure decisions in a capital market setting directing special attention to the determinants and economic consequences of corporate disclosure. A systematic analysis of financial disclosure, covering both mandatory and voluntary messages, can undoubtedly benefit from the consideration of some studies which highlight the need for adopting a strategic approach in financial communication and investigate the topic according to a process perspective.

The need for companies to develop a communication strategy, which has to be coordinated with the general corporate strategy (Coda, 1991), has been emphasized by many strategic and accounting studies (Healy-Palepu, 1993; Marston, 1996; Quagli, 2004; Avallone et al., 2016). An active and long term disclosure strategy should be of particular interest to the top management and could provide considerable benefit especially to relatively small, lightly followed firms and to those operating in new technology and politically sensitive industries (Lev, 1992).

The development of a strategy for corporate disclosure has been recommended also by studies on stakeholders' information needs in order to improve the financial communication process (Eccles-Mavrinac, 1995).

In such a perspective, of particular note are a few studies that investigate the financial communication phenomenon taking a wider view, and show features and issues of the entire process or of its key components. Some of these studies adopt the inductive approach of grounded theory (Glaser, Strauss, 1967; Glaser, 1978) to develop frameworks to interpret financial communication and to focus the analysis on significant elements. One of the first models (Gibbins *et al.*, 1990) highlights the role of disclosure position, internal and external structures and perception of norms and opportunities in conditioning disclosure outputs. The authors theorise the disclosure position as a stable internal preference for managing disclosures: it can result in an apparently uncritical acceptance of rules and norms (ritualism) or in a propensity to seek firm-specific advantage in the production and interpretation of disclosures (opportunism). More recent studies (Holland, 2005; Holland, 2006) point out the relevance of disclosure choices and the impact of feedbacks on corporate communication. According to this model in each period the firm faces a series of choices between public, semiprivate, private disclosure or secrecy about corporate financial data.

In the single period version of the grounded theory, public disclosure is chosen for mandatory disclosure, but with regard to voluntary information secrecy prevails private disclosure and the latter prevails over true voluntary public disclosure. Overall, cases revealed a cost benefit basis to voluntary disclosure choices. Taking into consideration a multi-period setting, disclosure outputs produce understanding and confidence states in the market, which are observable by companies through market outcomes (observed stock market states). Corporate learning and perceptions about these outcomes, together with priors, contribute to the following disclosure choices. A process view of investor relations is then adopted in a study focusing on meetings with analysts and investors, conducted on a sample of the top 500 UK companies (Marston, 2008). This model comprises company disclosure position and change drivers, IR function, disclosure actions, market outcomes, market side disclosure demands and change drivers, and market feedback and company learning. The development of a disclosure strategy, together with other company characteristics, can affect features and activities of the IR function, which is charged with financial communication tasks. Its actions, which employ different vehicles, determine market outcomes in terms of following and reputation. The effects of disclosure derive both from corporate choices and from market expectations and lead to a process of corporate learning about the IR function, actions and behaviour.

Considerable research explores more specific elements of the communication process and a large literature has emerged to test possible determinants and effects of voluntary disclosure. Those studies largely focus on the above mentioned message subsystem and examine information conveyed through a definite vehicle (e.g. the annual report, earnings announcements). Many of these studies investigate the company side of the process only indirectly, by taking into consideration the main firm characteristics as independent variables. Evidence from prior literature shows a positive association between dimension and disclosure with reference to different documents and events (Lang-Lundholm, 1993; Marston, 1993, Tasker, 1998, Frankel *et al.*, 1999; Rao-Sivakumar, 1999; Gelb, 2000; Watson *et al.*, 2002; Bagnoli, 2005).

Existing studies on voluntary disclosure also find evidence of a positive association with returns (Lang-Lundholm, 1993; Gelb, 2000) and cross listing (Marston, 1993), while results are still conflicting for variables such as results (Lang-Lundholm, 1993; Marston, 1993, Tasker, 1998, Frankel *et al.*, 1999; Rao-Sivakumar, 1999) and industry (Marston, 1993; Bushee *et al.*, 2003). Limited research has looked more directly at the company subsystem; however it is possible to identify significant contributions on the topic by wider studies on financial communication. Of particular interest is the analysis of the corporate position towards disclosure. This issue is a key element in the above mentioned Gibbins' model (Gibbins *et al.*, 1990), which defines disclosure position as a relatively stable preference for the way disclosure is managed. According to the model, a firm can develop a propensity toward uncritical adherence to prescribed norms for the measurement and disclosure of financial information (ritualism) or a managerial predisposition to seek benefits from the management of the disclosure process (opportunism).

Such positions and their impact on corporate procedures are not the result of norms and regulation, but arise from internal behavioural patterns. The company behaviour can also be defined with reference to the attitude towards stakeholders as receivers of the message (Quagli, 2004). From this point of view, a firm adopts a persuasive attitude when providing true and fair information in order to satisfy market information needs and gain consensus.

The search for advantage is the primary objective in case of manipulating attitude, with firms disclosing some data and hiding other ones so to have a benefit regardless of stakeholders' needs. Authoritative and rival attitudes are far from fair disclosure: the former shows no interest in the market information needs, and the latter is based on the idea that players have conflicting purposes and the firm has to pursue only his own.

More focused studies explore the corporate internal structure involved in the financial communication process. The preparation of financial information to be disclosed to the market is a complex process which many actors take a part in. First, dedicated offices such as the administration department and IR devote much of their effort in coding activities related to financial reporting, with CFO often playing a key role in terms of process management and coordination. Top management, especially the CEO, intervenes in setting guidelines of financial communication and in attending major events (e.g. conference call, analysts' meetings). Other subjects are charged with more specific tasks, more or less directly connected to financial communication. Public relation offices, for instance, are often involved in the preparation of price sensitive press releases, which may have not a purely financial content but can be of great interest to investors. Finally, specific coding operations are performed by external professionals, including consultants and auditors.

Taking into consideration the whole process, the involvement of top management in financial communication seems to be a critical issue, since it can enhance the development of a corporate disclosure strategy and the coordination of different communication activities. Moreover, a direct contact with investors offers top managers the opportunity to have a very useful feedback from the market, so to perceive the main disclosure issues (Gibbins *et al.*, 1990). The connection between top management and departments more heavily involved in financial communication is generally guaranteed by the CFO. Some studies focusing on that position (Heffes-Millman, 2005) highlight a shift from more technical tasks to the role of a specialised CEO advisor, more frequently sitting in the board of directors and answering investors' questions on business dynamics and strategic issues.

A rapid evolution has taken place with regard to the management of investor relations too. A growing number of firms have established IR offices, totally devoted to financial communication (Marston, 1993; Marston-Straker, 2001; Marston, 2004; Laskin, 2006). That trend started in the US, then spreading in the UK and in the rest of European countries, taking more time for contexts with less developed capital markets and having a recent acceleration due to the globalisation process (Marston-Straker, 2001). Evidence from prior researches (Rao-Sivakumar, 1999) shows that the introduction of IR offices is associated with external pressures, represented by ant management resolutions, monitoring by independent financial analysts, and mimetic influences. Communication activities performed by IR include both direct contact with single investors (in one-to-one meetings, phone calls and e-mail exchange) and the delivery of messages to many recipients, as it happens in presentations, content publication on the corporate website and management of newsletters and alerts to be diffused to a mailing list.

Among those vehicles, many studies agree on the major role played by one-to-one meetings with investors, where analysts ask for clarifications and feedbacks on their reports (Marston, 1993; Holland, 1997; Holland, 1998; Marston-Straker, 2001; Marston, 2004). IR offices also bring in consultants (Marston-Straker, 2001; Quagli-Ramassa, 2005) for radically different tasks, ranging from a contribution in the development of disclosure policies to the fulfilment of specific operations generally connected to coding activities (e.g. website design, document conversion and publication). Despite their external position, these professionals should be considered part of the source component of the communication system, due to their possible influence on corporate policies and choices.

Other professionals indirectly involved in the preparation of some messages are auditors, who intervene in the process to provide an independent assessment on financial statements. Their service is intended to guarantee stakeholders and enhance documents reliability and credibility, as it seems to be confirmed by the audit demand expressed by private parties (Leftwich, 1983). Despite this, empirical studies are not conclusive on the matter and there is evidence suggesting that audit reports do not provide investors timely information (Healy-Palepu, 2001). Literature proposes different explanations. On the one hand, some authors (Watts-Zimmermann, 1981) suggest that auditors take into consideration more the company's than investors' interests. On the other hand, the limited contribution offered by auditors to financial communication can be interpreted as the result of the audit firms' interest in limiting their responsibilities and in the nature of audited documents (e.g. the annual report). With regard to the second component of the company subsystem (coding activity), some interesting results have been reached by a stream of literature focusing on the readability of financial documents (Jones-Shoemaker, 1994).

From a theoretical point of view, Chall (1958) considers the key elements of readability to be interest, legibility, and ease of understanding. Accounting studies on the topic mainly focus on the readability of accounting narratives through the analysis of documents such as MD&Ds and President letters. Several studies indicate that accounting narratives are difficult to read because of both syntactic complexity and technical lexicon and that annual report readability has been reducing over the years (Pashalian-Crissy, 1952; Soper-Dolphin, 1964; Dolphin-Wagley, 1977; Barnett-Leoffler, 1979, Jones, 1988). With reference to readability determinants, empirical studies find evidence of a positive association between profitability and readability (Adelberg, 1979; Barker-Kare, 1992; Smith-Taffler, 1992; Subramanian *et al.*, 1993).

Those results suggest that management could be not neutral in presenting narrative information (Mortonn, 1974; Jones, 1994). The topic has been explored by studies conducted on impression management, intended as the phenomenon occurring when managers select information to display, and present that information in a manner that distorts readers' perceptions of corporate achievements (Leary-Kowalski, 1990; Neu, 1991, Neu *et al.*, 1998). Overall those studies find compelling evidence of the existence of that behaviour in the preparation of the annual report, with regard to both the choice of terms (Hildebrandt-Snyder, 1981) and the use of graphs (Beattie-Jones, 1997).

3. Research Method

3.1 Research question and case study design

The complex and dynamic system of financial communication has been investigated by a rich literature focusing on its specific components and by a smaller number of studies looking at the whole process. The formers primarily examine the message subsystem, documenting associations between disclosure and corporate determinants and between message characteristics and market outcomes. This paper shifts the focus to the company subsystem and aims at exploring its elements with a systemic approach, which appears to be substantially adopted by the latter stream of research. Such perspective seems appropriate in order to highlight both their specific issues and their interconnections with other components of the financial communication process (especially those of the message subsystem), which is essential when looking at disclosure policies and strategy.

The primary purpose of this paper is to explore the management of financial communication within the firm, with particular regard to the preparation of messages to be disclosed through documents and other vehicles. Such process can be interpreted (and so managed by the company) as a unique process which needs coordination and strategy, as suggested by literature, or as a sequence of specific and unrelated activities which only need to be performed efficiently. That is investigated focusing on activities related to preparation and issue of specific documents and contacts with the financial community, in order to understand whether those activities are managed as a coordinated process. This leads to the following research question, which can be expressed as:

RQ: How do companies manage the preparation and issue of specific documents and other contacts with the financial community?

To address this question, I take into consideration corporate activities undertaken to prepare financial statements and messages disclosed through other vehicles, according to a bidirectional, multi-vehicle and multi-channel view of the financial communication process. Such activities are explored adopting the case study method, which seems to be remarkably effective to look at this particular topic. Undoubtedly, case studies were considered (and this is partially true also at present) a less desirable research strategy, largely because of methodological issues and of the idea that they could produce only scarcely significant results. Despite this stereotype of weak research strategy, case studies have been used in numerous social science studies and in the last decades have been discussed by a growing literature showing their considerable potential (Yin, 1981; Yin, 1984; Eisenhardt, 1989; Smith, 1989; Stake, 1995, Jensen-Rodgers, 2001; Remenyi *et al.*, 2002; Yin, 2003). Case studies, which are extremely rare in disclosure literature (Mazzola *et al.*, 2006), were chosen to explore financial communication because of three major reasons.

First, I chose to conduct case studies because they are suitable to acquire an in-depth understanding of corporate activities, collecting detailed data which are not publicly available and require a direct contact with actors involved in the process (Gillham, 2000).

Secondly, this research strategy is highly effective when the boundaries between the observed phenomenon and the context are not clearly evident (Yin, 2003), which is the case of many financial communication elements and issues. Then, the research question is very appropriate for case studies, which are indicated by Yin (2003) as to be preferred to other strategies when a "how" question is being asked about a contemporary set of events over which the investigator has little or no control.

The paper is based on multiple case studies due to its exploratory purpose and to the limited prior literature directly focusing on the message preparation process, so to enhance external validity. The unit of analysis is the firm, with a focus on involved actors and procedures related to financial communication activities. Reliability, construct and external validity issues have been addressed in the research design. As regards construct validity, the analysis is based on multiple data sources, comprising public financial documents, corporate websites and interviews with internal actors involved in financial communication activities. In addition, interviewees reviewed draft notes after meetings to double check case study reports. Literal replication for multiple case studies and comparison with prior literature is performed in order to deal with external validity issues. Reliability is pursued by following a case study protocol and by creating a database to store separately evidence from documents and interviews and information derived from analysis and further reflections. Then, data were recorded whenever possible, and the research project and preliminary results were discussed with Italian and foreign scholars studying financial communication.

3.2 Case selection, data collection and analysis

In the light of the exploratory purpose of the paper, case companies have been selected on the basis of the complexity of the financial communication process, which would require some degree of coordination and strategy. According to literal replication three cases have been chosen among Italian blue chip companies which have a formally established investor relation function, representing an ideal setting in order to study the phenomenon in firms with high levels of disclosure. Empirical evidence from prior literature suggests that similar firm characteristics have an impact on the three financial communication subsystems. As regards the company subsystem, we can expect a relatively high amount of resources devoted to financial communication. From a message point of view, results indicate that these features are positively associated with quantity and quality of corporate disclosure. With reference to the receiver subsystem, such firms are particularly visible and are requested to cope with a considerable information demand from the market. The three cases studied in this paper (A, B, and C) have been chosen among firms with the above described characteristics on the basis of geographical proximity and availability to be involved in academic research, as suggested by case study literature (Yin, 2003).

For each case, the data collection included:

- the main mandatory financial documents (annual and interim reports, and price sensitive announcements);
- financial documents voluntarily disclosed by companies;
- records of other contacts between companies and the market (e.g. slides and audio files of presentations to the financial community and conference calls);
- the IR section of the corporate website;
- Private data collected during interviews with IROs.

Due to the sensitive nature of corporate data, the presentation of the case studies has been made anonymous. The observation period is 2005-2007 for the first sources with the analysis of 360 messages (*Table 1*), while all interviews with IROs took place in autumn 2007. This period is of particular interest since it precedes the financial crisis and is characterised by an intense activity of financial communication, thus showing the complex interactions between the players involved in the process.

Table 1: List of documents and other financial communication vehicles

	Firm A			*Firm B*			*Firm C*			*Total*
	2005	2006	2007	2005	2006	2007	2005	2006	2007	
Annual reports	1	1	1	1	1	1	1	1	1	*9*
Interim reports	3	3	3	3	3	3	3	3	3	*27*
Announcements	22	25	22	45	46	53	15	16	14	*258*
Presentations	4	6	6	14	9	10	5	7	5	*66*
Total	*30*	*35*	*32*	*63*	*59*	*67*	*24*	*27*	*23*	*360*

The collection and following analysis of documents and other publicly available recordings has been performed immediately after the company acceptance to take part in this research project, so to have a complete view of companies' financial communication and to effectively prepare future contacts with firms. Those documents are examined with reference to structure, nature of information disclosed and their evolution in the observation period. After a preliminary analysis of data aimed at understanding the main features of the specific messages, I conducted interviews with the heads of each IR department to have access to private information on the company subsystem. That position was chosen for the involvement in several financial communication activities and for the relevant external and internal connection role (Marston, 2004).

With regard to the form, I chose semi-structured interviews (Merton et al., 1990; Rubin-Rubin, 1995) with neutral questions since questions about internal procedures had to be very precise but their opinions on financial communication were very useful to complete the analysis. Interview duration ranged from one hour and a half to two hours approximately and they were not tape-recorded in order to create confidence with interviewees and have very frank comments (Stoner-Holland, 2004). First questions regarded the IR function and were basically aimed at having a better knowledge of the internal organization and identifying potential differences among case companies. Then, questions on corporate procedures were asked with regard to the preparation of each kind of vehicle used by the firm to disclose financial information. For every document or communication event interviews discussed the timing of disclosure, the choice of information to convey, and the material preparation of the message. Lastly, questions on corporate policies on financial communication and coordination procedures were asked.

4. Results

4.1 Case A

Company A is one of Italy top energy companies, with operations in the procurement, production and sale of electric power and natural gas. The firm was created in the 19th century focusing on the sale of electric power. Then it underwent many radical changes both in the external context (Italy electric power industry nationalised in 1962 and deregulation of the energy market in 1999) and in the corporate structure and activity. In the last years, the company has achieved an ambitious investment plan in electric energy generation and aims at consolidating its role in the energy sector by developing new gas infrastructures and innovative customer services. Taking into consideration the financial results in the observation period, revenues grew and margins decreased with regard to both electric power (the core business) and natural gas. At corporate level, the improvement of results concerns not only the revenue increase but also a growth in return on equity and a progressive debt reduction.

The study of its financial communication started from the analysis of messages conveyed in the observation period through the following vehicles: annual and interim reports, price sensitive announcements, presentations, the IR section of the corporate website and annual review. Then, data collected during the interview offered useful insights about not publicly available vehicles, such as one-to-one meetings, site visits and internal newsletters.

Annual and interim reports have a stable formal structure, consisting of a narrative introduction on the group performance, a MD&A section, followed by consolidated and separate financial statements with relative notes. The analysis of information shows a gradual increase of disclosure on corporate governance and risk management, with dedicated sections in the MD&A. In addition to mandatory disclosure and extensive comments on financial results, considerable details are released on regulation, operating segments, processes and technical data, while less attention is devoted to strategy and competitive issues. Information on environment and social responsibility is very limited, since such topics are covered in dedicated sustainability reports.

During the observation period, the company issued 69 price sensitive announcements, mainly regarding industrial and commercial agreements, investments, top management changes, the financial calendar and the approval of financial statements. Presentations to the financial community were organized on a regular basis to discuss interim and annual results and strategic updates, with four to six events per year. All messages are disclosed in English via a conference call, which is announced by a price sensitive announcement. Slides and audio files of such events are available in the IR section of the corporate website. That section was radically changed during the observation period so to adapt communication to the new brand image, to improve information clearness and accessibility and increase interactivity as well. In pursuit of those objectives, the development of the new website was supported by external consultants and is based on the combination of rational and emotional elements so to offer a pleasant experience to users.

The section is easy to access and to navigate thanks to maps, search engines, language and visualization tools. Contents include highlights, financial statements, announcements, presentations, various corporate reports, a review of analysts' reports, and contacts. To enhance accessibility, the IR section provides a general archive of the principal documents, a investor kit, a glossary for financial and technical terms, FAQs and some useful links to interpret corporate financial communication. Timeliness of disclosure is promoted through a "corporate live" subsection, comprising RSS feeds, a synchronization tool for corporate news, an alert service (via e-mail or sms), podcasts of corporate presentations, a corporate blog and a dedicated mobile version of the website. Then, of particular note is the voluntary preparation of an additional financial document, the annual review, which is a relatively brief document (around forty pages) covering the group profile, financial results, strategic elements and future objectives. Information collected during the interview on the coding activities and involved offices shows that a high number of individuals and departments take part in the financial communication process. With different competencies and tasks (*Table 2*), they include: IR, Administration, Planning and Control departments, CFO, CEO, Press office, Public Relations, Communication and Corporate Affairs departments, and external consultants.

Table 2: **Source and coding activities: case A**

	Financial statements	*Notes*	*MD&A*	*Price sensitive announcements*	*Presentations*	*One-to-one meetings*	*Site visits*	*Website IR section*	*Annual review*	*Internal newsletter*
Investor Relation				C	P	P	P	P	P	C
Administration Department	P	P								
Planning and Control Department			P							
CFO	C	C	C	C	C					
Press Office				P						P
Public Relation Department								O		
Communication Department								P		
Director of Public Relations and Communication	C	C	C							
Corporate Affairs Department			C	C						
CEO	C	C	C	C	C					
External consultants									P	

Legend:
P: Preparation activities
C: Control activities
O: Content owner

Finance functions such as the Administration department and the Planning and Control department, reporting to the CFO, are deeply and actively involved in the preparation of mandatory financial statements. In particular, the former is responsible for financial statements and notes, while the latter prepares the more narrative and qualitative MD&A section of annual and interim reports. The IR office is not involved in those activities, being charged with the preparation and management of messages to be disclosed through more direct channels, such as presentations, one-to-one meetings and site visits. In addition, the IR work on the preparation of the annual review with the support of external consultants for graphics and collaborate with Public Relations and Communication departments, providing the major contents for the IR section of the corporate website.

Press office, Public Relations and Communication departments have an active role in the material preparation of messages directed to a wider audience, generally published through announcements and press releases and on the IR section of the corporate website. The Corporate Affairs department has a more focused task, consisting in controlling the release of specific data within different kinds of documents (e.g. the annual report and announcements). Both the CFO and the CEO exercise a wider and more comprehensive control, even if at different levels of detail, with particular attention to more price sensitive messages (financial statements, announcements and presentations). With specific regard to IR activities, a dedicated department was created in the Nineties to manage relations with investors for both holding and subsidiaries. At present its main tasks include external communication, analysis and benchmarking of financial results and communication, and transmission of market feedbacks to top management. External communication is undoubtedly the major activity and concerns primarily relations with equity analysts, institutional investors, fixed income analysts and investors, and rating agencies.

Some of those operations are scheduled following an IR annual plan, comprising four conference calls and one strategic update each year, with possible additional events (such as road-shows). Analysis and benchmarking of financial communication are carried out only on competitors for presentations, while are extended to other industries with reference to annual reports and corporate website. Internal communication is mainly focused on transmission of market feedbacks to top management, with the preparation of a monthly internal note on market reactions reviewing consensus and analysts' reports.

4.2 Case B

Company B is a relevant industrial group in Italy and one of the founders of the European motor industry. It is an automotive-focused group, which designs and manufactures automobiles, trucks, wheel loaders, excavators, telehandlers, tractors and combine harvesters. Industrial and financial services activities are carried out through companies located in 50 countries and commercial relationships with customers have been developed in over 190 countries. In the late Nineties, the firm performance was seriously affected by the declining demand in the automotive industry, whose effect was augmented by excessive diversification, incautious investment evaluation, high debt and organizational complexity. In 2004, a new top management led the foundation to overcome the crisis. A restructuring plan was launched, aimed at enhancing efficiency and competitiveness through a rigorous cost containment and a new focus on the automotive industry. In that segment, strategy consists of innovation, quality improvement and brand repositioning, to be pursued together with the development of the commercial network. 2005 has been the year of the turnaround, with the group returning to profitability after several periods of losses.

Rationalisation of processes and orientation towards the market produced positive results, with the successful launch of new products and the beginning of a phase of growth in 2006. During the observation period, which comprises the firm turnaround, the financial performance had a significant improvement, bringing to debt reduction and gained credibility, as demonstrated by the progressive rating upgrading. Publicly available financial documents issued during the observation period include the following vehicles: annual and interim reports, price sensitive announcements, presentations, and website IR section. Other relevant contacts with the financial community, such as one-to-one meetings, site visits and major presentations, have been further discussed during the interview with the corporate IRO. The annual report has a formal structure consistent over the observation period. It includes a chairman and CEO letter, MD&A (with a detailed section on operating segments), consolidated and separate financial statements with their notes, auditors' and annual general meeting reports.

Of particular interest is the MD & A, which contains a very rich disclosure on a variety of topics, from the corporate profile and operating segments up to strategy, innovation, and human resources. Social and environmental data and also corporate governance information are provided in brief sections, indicating that more detailed documents are prepared on the topics, and useful information to access them on the corporate website. Compared to those documents, interim reports are much shorter and synthetic. Consolidated and separate financial statements are explained in brief notes and discussed in narrative sections dedicated to corporate and segment results. Then, some information is separately disclosed with regard to the group structure, related parties, events occurred after the end of the reporting period and future prospects. Overall, interim reporting is focused on financial results and their discussion, suggesting that its primary purpose consists in providing an update of major information and not an updated version of the annual report.

During the observation period, the company issued 144 price sensitive announcements, issued frequently to provide a timely disclosure regarding external events or news on operations. The first ones mainly regard voluntary or requested reactions to rumours spreading in the market, representing more an answer to market messages than the voluntary start of a new dialogue. Other announcements are issued to inform on both recurring and special operations. Regular operations leading to their release include the approval of results, conference calls, and financial calendar, while special events and operations are mostly connected to the implementation of the restructuring plan, with disclosures on new agreements and partnerships.

Presentations to the financial community are another key vehicle in the management of financial communication by the case company. The need for the market confidence during the turnaround led to a high number of presentations, which took place to comment annual and interim results, during major trade fairs, international road-shows and programmed events. With regard to the medium, only the first ones are transmitted via conference call, while the others are organized as direct contacts.

Of particular interest is the Investor and Analyst Day, a special two-day event held every two years. Its purpose is to provide a very detailed presentation of the group and its strategic plan, with many speeches and the opportunity for the financial community to interact with the top management during presentations and one-to-one meetings. The analysis of their content indicates a relevant role for that vehicle in supporting the restructuring plan and restoring the market confidence in the firm. It is clearly visible in the attention paid to the key elements of the new strategy and future prospects, and in the frequent comparison between previous forecasts and achieved results, aimed at enhancing corporate credibility. The IR section of the corporate website seems to be conceived as a complete archive with the principal purpose of making financial documents accessible and available to corporate stakeholders. It contains the event calendar, corporate governance information, and financial statements, data dedicated to investors and shareholders, price sensitive announcements, press releases and an e-mail alert service.

The preparation of messages delivered through the above-described vehicles is a process many departments and individuals take part in, charged with launch, preparation, support or control activities. They are: the IR, Control, Reporting and Annual Report departments, the Group controller, the Group treasurer, brand directors, the Press office, Public Relations, Media Relations, the Communication department, Legal Affairs, the IT department, the CEO, and some external consultants (*Table* 3).

Table 3: Source and coding activities: case B

	Annual and interim reports	*Press releases*	*Presentations*	*Result presentations*	*Investor and Analyst Day Presentations*	*One-to-one meetings*	*Site visits*	*IR section of corporate website*
Investor Relations	S	C	L-P	P	P	P	P	P
Control Department	P							
Reporting and Annual Report Department	P							
Group Controller				P	P			
Group Treasurer	C			P	P			
Brand Directors					P			
Press Office		P		P	P			
Public Relations							P	
Media Relations		C						P
Communication Department								P
Legal Affairs		C		P	P			
IT Department								P
CEO		L	L-C	C	L-P-C			
External Consultants								P

Legend:
L: Launch of the process
P: Preparation activities
S: Support activities
C: Control activities

Preparation activities are assigned to some dedicated departments or result from a more consultative process depending on the vehicle.

For instance, press releases are issued following a CEO decision and their composition is mainly determined by the Press office, with IR, Media Relations and Legal Affairs charged with the control of the final message. On the other hand, presentations of results to the financial community are prepared by the IR in coordination with the Group treasurer, the Group controller, Press office and Legal Affairs, with a direct control by the CEO. An even broader participation concerns the planning of the Investor and Analyst Day, which encompasses activities related to the new strategic plan too. The management and content publication on the IR section of the website involves many departments as well, with IR, Media Relations, the Communication and IT department, and external consultants taking part in preparation activities. Messages to be disclosed through other vehicles result from more focused activities. This is the case of annual and interim reports, prepared by Control and Reporting departments supported by the IR and controlled by the Group treasurer. Then, one-to-one meetings and site visits are prepared by the IR, with some degree of coordination with Public Relations with regard to visits. The analysis of the coding activities shows a prominent role of the IR in the financial communication process, with some kind of participation in the preparation of every message.

The department has been created in the Nineties and its primary task regards external communication to the financial community, with a particular focus on analysts and institutional investors. Its activity consists in the preparation of messages to be disclosed through direct channels such as presentations and one-to-one meetings, while it is generally limited to support or control operations for other financial documents.

Major events and meetings are programmed in an annual IR plan, developed together with the CEO and subject to changes during the period according to emerging information needs. With the exception of the blackout period, most of the time of the IR department is dedicated to regular communications with investors aimed at answering their questions and offering explanations on previous messages. Other activities performed by the IR department include the evaluation of competitor results, a comparative analysis of financial disclosure, the evaluation of IR activities and the communication of market reactions to the top management. As observed in the first case study, the benchmarking is limited to direct competitors only for financial results, while it is extended to other firms when regarding financial disclosure. The evaluation of IR activities is not based on quantitative measures, but on more qualitative elements such as the satisfaction of information requests and the feedbacks received, which are regularly shared with the top management.

4.3 Case C

Company C operates in the fashion apparel business and is present in 120 countries around the world with its brands. They are intended to be the expression of a strong Italian character based on style, quality and passion.
After the sale of the sport apparel business in 2003, the group operated in a changing European environment, with increased competition, consumers' special attention to prices and growing demand for a better quality-price ratio. The corporate strategy implemented during the observation period focused on products and on the distribution network, aiming at boosting efficiency and promoting a rationalisation of production system and organization. Financial results were clearly affected by the competitive environment; however the group reported increasing revenues and profitability, which can be explained by debt reduction as well. With regard to property and top management, the group has been founded and is still controlled by the founder's family, while top management had a radical change in autumn 2006 when both CEO and CFO resigned for having divergent opinions from the property. It is worth noting that, after that unexpected event, the appointment of new CEO and CFO (both external managers) was announced the following spring.

The analysis of financial documents issued during the observation period regards the following vehicles: annual and interim reports, price sensitive announcements, presentations, and website IR section. Then, disclosure of financial data during presentations, one-to-one meetings, and site visits were discussed with the corporate IRO during the interview. Annual reports are based on a consistent structure over the entire observation period, with slight changes due to a progressive enrichment of voluntary disclosure (e.g. a new MD&A section on risk management). For instance, in addition to the more traditional sections the group provides a glossary for both financial and technical terms, so to support receivers in their decoding activities. Narrative sections include not only the Chairman letter, but also an interview with the vice-chairman (who is a family member as well) discussing corporate future prospects. Then special attention is devoted to disclosures on products and brands, while limited comments are provided with reference to the distribution network, despite its role in the strategic plan. Interim reports are much shorter documents, with a similar structure (despite half year reports disclose more detailed information) and a clear focus on financial results and operating segments.

During the observation period, the company issued only 45 price sensitive announcements, regarding mainly commercial and industrial agreements and regular activities connected to mandatory disclosure, such as the approval of corporate results and of financial statements. Presentations to the financial community are regularly held to provide strategic updates and to discuss periodic results, which are disclosed according to a consistent presentation structure over the years. It includes mainly tables showing quantitative data, but accessibility to the message is enhanced by audio files and the transcript of the presentation available on the IR section of the corporate website.

That vehicle is designed to be both an extensive and easy-to-navigate archive of financial information and a useful tool to develop positive relations with investors. With regard to the first purpose, it stores data on group characteristics, social issues, management, property, share price and financial highlights (with interactive tools), financial statements, details on IAS-IFRS, and on analyst following. A particular attention is paid to investors who look for preliminary information on the firm.

They can find an investor kit with the essential documents and data, a list of FAQ and some glossaries regarding business, finance and administration, and corporate governance terms. Then, the interest in the group is stimulated by alert services and the IR mailing list, and a bidirectional communication is facilitated by interactive tools aimed at recording a market feedback.

In line with the other case study results, information on the coding activities shows a high number of professionals and departments involved in the financial communication process. The preparation activities are mainly performed by internal actors, with a limited intervention by external providers in delivering press releases and publishing contents on the IR section of the corporate website.

Taking into consideration internal resources, financial communication activities are carried out by IR, Annual Report, Administration, and Control departments, CFO, Press office, External Relations and Corporate Affairs department, graphic designers, CEO and Board of directors (*Table 4*).

Table 4: Source and coding activities: case C

	Annual and interim reports	*Press releases*	*Result presentations*	*Strategic presentations*	*Roadshows*	*One-to-one meetings*	*Site visits*	*IR section of corporate website*
Investor Relations	P	L-C	P	P	L-P	P	P	P
Annual Report Department	O-L-P							
Administration Department		C						
Control Department				P				
CFO	C	C	C	P	C			
Press Office	P	P						
External Relations Department							P	
Corporate Affairs Department		D						
Internal graphic designers	P							
CEO		O-C	C	L-P	C			
Board of Directors		C						
External consultants / providers		D						D

Legend:
L: Launch of the process
O: Process owner
P: Preparation activities
C: Control activities
D: Delivery activities

As regards specific vehicles, annual and interim reports are prepared by the Annual Report department as a result of several meetings with IR, Press office and graphic designers. A draft version is then controlled by the CFO before the approval by the Board of directors. The release of announcements results from a consultative process as well: it is initially proposed by IR, and then the Press office prepares a draft, which is controlled by IR and forwarded to the CFO for approval. The draft is also subject to verification by the Administration department to check figures and, if price sensitive, must be approved by the Board of directors as well. The final version of the draft must be approved by the CEO and is then transmitted by corporate affairs department. IR is the department most heavily involved in planning and preparation of conference calls and investor meetings, with a more decisive role in result and road-show presentations compared to strategic ones.

The IR is also charged with site visits (in coordination with External Relations), one-to-one meetings and the management of contents to be published in the IR section of the corporate website. As previously noted with regard to company B, information on coding activities indicates that the IR department takes part, with a more or less direct involvement, in the preparation of all financial messages. The department was created in 1992 and its communication activities are not limited to external audiences, but concern also the promotion of an internal dialogue on financial communication. Such internal process takes place in regular formal meetings and specific messages, and includes contacts with Press office, Sales, Administration and Control, and Strategic Planning departments. The aim is twofold. On the one hand, IR shares the feedbacks received from the market to keep other firm components informed about investors’ perceptions. On the other hand, IR has the opportunity to discuss data and issues which can become the subject of future one-to-one meetings with institutional investors.

In addition to external and internal communication, the IR also undertakes some collateral activities, such as peer analysis and investor targeting. The former consists in benchmarking the corporate competitive position and the share price with those of major competitors. The latter is an analysis aimed at identifying possible future investors looking at funds with investment policies in line with the corporate strategy which have invested in peers, but not in the company.

5. Cross case analysis

The primary aim of this paper is to explore the financial communication system, focusing on how firms prepare messages to be disclosed to the financial community (company subsystem). In pursuit of that objective, I carried out three case studies examining preparation activities and involved departments with regard to different vehicles used in the communication process. In such a perspective, the cross case analysis is intended to provide some insights in order to improve the understanding of this phase of the process and of its degree of coordination.

The investigation of sources involved in preparing financial messages indicates that a high number of professionals and departments take part in the process, with only occasional support by consultants and limited technical tasks assigned to external providers. It suggests a clear understanding of financial communication relevance and the will to exert a direct control on such activities. However, it does not automatically mean that preparation operations are managed as a coordinated process following a precise financial communication strategy.

With minor differences depending on specific corporate structures, internal resources taking part in coding activities include administration and control functions, CFO, CEO, IR, and departments dedicated to public relations and corporate affairs. Preparation procedures are variously defined with reference to each vehicle and can consist in consultative processes involving many corporate functions or more focused activities carried out by a specific department which is supported by other offices with reference to particular topics and tasks. Even if the former shows a more evident focus on coordination, the latter kind of procedure is characterised by several contributions, whose coordination is assigned to managers charged with control activities. Top managers often carry out such operations and it can be interpreted in different ways. On the one hand, their involvement in financial communication is undoubtedly positive, suggesting a special attention to the process, which is a key element in developing favourable relations with the market. On the other hand, it is not always clear whether the CEO and CFO contribution regards a wide control or represents a formal procedure to which they can devote only a limited amount of time.

Then, the analysis of coding activities shows a prominent role of IR taking part in the preparation of almost every financial message issued by the three case companies. They have a more active involvement in planning and managing direct contacts with investors, but are often responsible for coordination in the preparation of messages delivered through other channels. It is interesting to note that IR activities concern also some collateral activities, aimed at improving the process through competitor benchmarking, investor targeting and internal communication of market feedbacks. Case studies highlight richness and complexity of financial communication offering the opportunity to explore corporate peculiarities and different vehicles, with some interesting results concerning the message subsystem as well. During the observation period, disclosure provided through several channels had a progressive increase, regarding both voluntary sections in mandatory statements and the enhancement of vehicles such as the IR section of the corporate website.

That section has a central role to facilitate investor access to financial information on the firm and seems to be conceived in pursuit of partially different objectives among the case companies. A former and basic task of the IR section of the corporate website is to store a vast number of documents and financial data as a complete and easy-to-access archive. The latter approach extends the purpose of the website, which is intended as an active tool to use in order to develop and maintain positive relations with investors.

[3] Additionally, traditional information focused on corporate and segment results and relative comments, messages delivered through the IR section of the corporate website and other financial communication vehicles contain some disclosures on topics such as corporate governance and social and environmental impact too. The delivery of such information seems to follow different communication policies among the firms. In some cases, collateral information on those topics is reported with many details in financial statements, following a redundant approach. A different policy consists in presenting only synthetic collateral data in financial reports, informing investors on how to access more focused documents on those topics.

With regard to the receiver subsystem, case companies focus their communication activities to messages directed to analysts and financial investors and show a strong interest in the market feedback, which is often recorded by the IR so to be analysed and internally shared. Nevertheless, this general orientation is combined with attention to the needs of private investors, which have led to the preparation of glossaries, FAQ, investor kits and similar forms of communication.

6. Conclusions

The present paper aims at exploring financial communication shifting the focus from the output to the preparation and the corporate side of the process, which has received limited attention by accounting studies. Financial communication is intended as a bidirectional and multi-channel process and is analysed according to a framework based on information theory elements (source, coding activity, message, channel, decoding activity, receiver, feedback). That process view seems to be particularly suitable to the study of financial communication, since it highlights two-way information flows and draws attention to the specific process elements. In such a perspective, financial communication is conceived as a complex system resulting from the combination of interrelated and dynamic components and can be divided into three main subsystems (company, message and receiver subsystems).

This study focuses on the company subsystem through the analysis of corporate actors involved and preparation procedures adopted, which seem to be of particular interest in order to advance the current understanding of financial communication. In pursuit of that objective, I conducted multiple exploratory case studies on Italian blue chips, which are involved in a complex financial communication system and have a formally established investor relation function. The analysis of cases, based on multiple sources of evidence, investigates primarily activities related to preparation and issue of specific documents and contacts with the financial community, so to understand whether these activities are managed as a coordinated process. The investigation of sources involved in preparing financial messages indicates that a high number of professionals and departments take part in the process, with formal procedures variously defined with reference to each vehicle. They are always subject to a certain degree of coordination and can consist in consultative processes involving many corporate functions or in more focused activities carried out by a specific department, which receives support by other offices in preparation and control activities.

Top managers, generally CEO and CFO, often carry out controls, suggesting a special attention devoted to the financial communication process. Then, the analysis of coding activities shows a prominent role of the IR taking part in the preparation of most of the financial messages with an active involvement or coordination and support tasks. Findings should be considered in the light of certain limitations, mainly regarding the explorative nature of the study. Future research can contribute additional and more complete evidence on how companies prepare financial messages and on interactions between the company and other subsystems. Lastly, the adoption of case studies to investigate the company subsystem seems of particular interest from a methodological point of view. Indeed case studies highlight the complexity of the financial communication system offering the opportunity to conduct an in-depth analysis on corporate peculiarities and preparation activities related to different vehicles.

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