Aalto University
School of Business

Strategic Financial Communication in Accounting Standard Changes - Case IFRS 17 Leases

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ABSTRACT
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Objectives of the Study

The aim of the research is to study the impact of the IFRS 17 Leases standard change on the Financial Communication function of a selected Finnish stock listed multinational coined Company X. The standard change is part of a wider endeavor to harmonize financial reporting across the world and will considerably affect the financial position of companies that currently engage in operative leasing. The study addresses the effects of the standard change on the providers and users of Financial Communication to answer the main research question: 'What are the expected effects of IFRS 17 Leases standard change on the Financial Communication function of Company X?'

Methodology and Theoretical Framework

The study is conducted using a qualitative research method. Data collection is done through 6 semi-structured interviews. The interviewees represent a wide range of expertise in Financial Communication, Controlling, Auditing and Accounting Advisory as well as Equity Analysis and Research. The Theoretical Framework is adapted from theories of Corporate Governance as well as Strategic and Integrated Communication. The Theoretical Framework addresses the inputs, the organizational process and the outputs of a Financial Communication endeavor. Financial Communication is inherently a cross functional discipline, combining financial management and strategic communication to directly contribute to a company's 'purpose of being'.

Findings and Conclusions

The findings of the study show that analysts face considerable challenges in valuing Company X. These challenges are likely to be accentuated by the change in the IFRS 17 Leases standard, due to the standard change representing an additional level of uncertainty, without addressing the sources of the valuation challenges. This finding emphasizes the importance of proactive Financial Communication. The study also finds that Company X's Financial Communication is of a high standard but at times unstructured, especially during transition. An 'ad hoc' approach to issue management combined with stakeholders' differing levels of awareness, understanding and scrutiny of changes in accounting regulations and principles may create challenges to Company X's Financial Communication efforts. Similarly challenges arise from the implementation and interpretation of the new standard as well as the administration of lease contracts. A reconciliation bridge between the old and new IFRS 17 Leases standards will more likely than not be required, along with a Financial Communication Strategy that supports it. However, the IFRS 17 Leases change also provides an opportunity for Company X as the new requirements are likely to emphasize the benefits of providing value adding information to stakeholders. Recommendations were given to address various stakeholders in a more structured and proactive manner.

Keywords: Financial Communication, Strategic Communication, Investor Relations, IFRS 17, Leasing, Corporate Governance

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Strateginen sijoittajaviestintä kirjanpitostandardimuutoksissa – Case IFRS 17 Leases

Tutkimuksen tavoitteet
Tutkimuksen tavoitteena oli selvittää, millainen vaikutus IFRS 17 Leases -standardimuutoksella on erään suomalaisen monikansallisen listatun yrityksen[1] sijoittajaviestintään. Tämä uusi standardi on osa suurempaa maailmanlaajuista harmonisaatioprojektia ja tulee vaikuttamaan sellaisten yrtysten taloudelliseen positioon, joilla on nykyisen standardin mukaisia käyttöleasingsopimuksia. Tämä tutkimus tarkastelee kyseisen standardimuutoksen vaikutuksia tilinpäätöstietojen käyttäjiin ja tuottajiin vastataakseen tutkimuksen pääkysymykseen: "Mitkä ovat IFRS 17 Leases -standardimuutoksen vaikutukset Yritys X:n sijoittajaviestintään?"

Tutkimusmenetelmät ja teoreettinen viitekehys
Tutkimus toteutettiin kvalitatiivisin tutkimusmenetelmin. Tutkimusaineisto kerättiin suorittamalla kuusi teemahaastattelua. Haastateltavat edustivat laajaa asiantuntemusta monelta eri alalta, kuten sijoittajaviestinnästä, raportoinnista, tilintarkastuksesta, kirjanpidon neuvonannosta, sekä osakeanalyysistä. Teoreettinen viitekehys on sovellettu yhtiön hallinnoinnin sekä strategisen ja integroidun yritysviestinnän kirjallisuudesta ja malleista. Teoreettinen viitekehys tarkastelee Yritys X:n sijoittajaviestinnän ulkoisia vaikutteita, prosessia ja tuotoksia. Sijoittajaviestintä on sisimmissään poikkitieteellistä toimintaa, joka yhdistää talousjohtamisen ja strategisen viestinnän, edistääkseen yrityksen toimintakykyä.

Tutkimuksen tulokset ja johtopäätökset
Tutkimustulokset osoittivat, että analyytikot kokevat Yritys X:n arvonmäärityksen erityisen haasteelliseksi. IFRS 17 Leases -standardimuutos tulee mitä ilmeisemmin lisäämään tätä haasteellisuutta, sillä se tulee lisäämään arvonmäärityksen epävarmuustekijöitä. Kyseinen haasteellisuus vahvistaa analyytikoiden subjektiivisten mielikuvien merkitystä, mikä puolestaan lisää laadukkaan ja proaktiivisen sijoittajaviestinnän tärkeyttä. Yritys X:n sijoittajaviestintä on erittäin korketasoista, mutta ajoittain epäjärjestelmällistä, erityisesti liittyen muutosvietintään. Eri sidosryhmillä on erittäin vaihteleva ymmärrys kirjanpitostandardimuutoksista ja kirjanpitoperiaatteista. Tämä vaihtelevuus yhdistettynä ajoittain epäjärjestelmälliseen muutosvietintään saattaa tuottaa haasteita Yritys X:n sijoittajaviestinnälle. Lisäksi haasteita tuottanee uuden standardin käyttöönotto ja tulkinta sekä tulevan standardin mukainen leasingsopimusten hallinnointi. Erillinen siirtymävaiheraportointi ja sitä tukeva sijoittajaviestintästrategia tulee mitä todennäköisimmin olemaan välttämätöntä. Standardimuutos myös painottaa sijoittajaviestinnän mahdollisuutta tuottaa lisäarvoa sidosryhmille. Tutkimuksen lopussa, tutkija esittää suosituksensa proaktiivisemmalle ja strukturoidummalle sijoittavaviestinnälle.

Avainsanat: sijoittajaviestintä, strateginen viestintä, sijoittaja suhteet, IFRS 17, Leasing, corporate governance

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[1] Yritys X

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1 Introduction

"Enron's blow to investor faith is the Watergate of business. Trust will no longer be assumed. Companies will have to earn it with behavior, communications and leaders that inspire confidence" A. Towers, president of TowerGroup (as cited in Allen, 2002, p.207)

Financial Communication has become increasingly important as investors' trust in the markets has been tested time and time again. The past few decades have seen a series of deregulations, worldwide financial crises and corporate scandals resulting from a breakdown of corporate governance. All the while funds invested with institutional investors such as equity and pension funds have grown one hundredfold over a span of 25 years (Inoue, 2009, p.65).

According to Thomas (2003), accounting standards have been analyzed and scrutinized in the past in order to find better means of reporting and communicating a company's financial position and health. Since the adoption of the Sarbanes-Oxley act[2] and regulations introduced by the Securities Exchange Commission (SEC) in the United States, financial reporting has gained additional attention in terms of the processes that create sound corporate reporting. However, real improvements in the current financial reporting have yet to be achieved (Shahwan, 2008), due to the difficulties of addressing the users of financial information in a coherent way (Flegm, 2006).

Companies worldwide are commonly using off-balance sheet financing in order to conceal the actual extent of their leverage. According to the World Leasing Yearbook (2010, as cited in Biondi et al. 2011), leasing activities in 2008 amounted to US$640 billion, with the majority being classified as off balance sheet financing. To estimate the development of leasing activity, Franzen, Rodgers and Simin (2009, p.1) reported that during the years 1980-2007 off-balance sheet lease-financing as a percentage of total debt increased a staggering 745%. If leased assets were brought onto the balance sheet,

[2] The Sarbanes-Oxley Act was passed in the US in 2002 to enhance the governance of public companies.

average debt-to-capital ratios would increase by 50-75% over the 27-year sample period (Biondi et al., 2011, p.5).

Traditionally the role of Financial Communication is to ensure that a company's share price is fairly valued (Inoue, 2009, p.65). However, Gilfeather (2003) further elaborates Financial Communication as having two main dimensions, compliance and marketing. Both of these dimensions are essential for establishing a fair market value for company shares. Compliance ensures sufficient disclosure in the markets in accordance with regulations. Marketing as a dimension of Financial Communication, on the other hand aims for adequate awareness in order to guarantee fair valuation, by attracting a sufficient number of investors through targeted communication. According to Virtanen (2010), these investors are multi-dimensional and interconnected constituencies, which require a deep understanding of in order to be communicated to efficiently.

According to Roe (2004), information distribution is essential to ensure that shareholders possess enough information on their investments, such as the companies' finances and operations. Lang and Lundholm (1996) argue that companies can improve the accuracy of market expectations, increase following and reduce information asymmetry by engaging in proactive corporate disclosure. Furthermore, Gaa (2010) points out that all companies inevitably have a strategy for communicating with external stakeholders, whether this strategy is explicitly addressed or not. These studies emphasize the importance of addressing and developing Financial Communication.

Companies' Financial Communication function has become gradually more involved in activities and communication with stakeholders that have traditionally been considered to belong under other communication functions (Inoue, 2009, p.63). Gilfeather (2003) identifies these stakeholders to include not only companies, analysts, regulators, and investors, but also advisory services, the media and retail representatives. Heldenbergh, Scoubeau, Arnone, and Croquet (2006) continue the list with all creditors, clients, suppliers, credit rating agencies, local authorities and governments.

Heldenbergh et al. (2006, p.187) compare the abnormal communication requirements of a transition period to those of a crisis situation. They base this idea on empirical evidence which highlights the need to develop tools and strategies specific for each individual situation. Heldenbergh et al. (2006, p.187) emphasize the need for adequate resources in the preparation for such a situation in order to adapt messages to the different audiences, and thus communicate the effects of the event efficiently.

Financial Communication is fundamentally a cross functional discipline, combining communication efforts, financial management and accounting. Cornelissen, Lock and Gardner (2001) present an integrative framework for corporate communication functions which identifies characteristics of the communicating organization as well as situational factors that drive integration. They conclude that in the past decade, such communication disciplines as marketing communication and public relations, including issues management, public affairs, government relations, corporate design and community relations have been moving towards increasingly integrated approaches. This means that communication is organized more into cross functional processes than into functional entities. Hallahan, Holtzhausen, van Ruler, Vercic and Srisamesh (2007, p.11) examine similar pressures driving strategic communication that recognizes purposeful influence as the ultimate goal of corporate communication. They find that combining the different communication functions that may seek different goals, strategic communication contributes directly to the company's "purpose for being".

In August 2010, the International Accounting Standards Board (IASB) published an Exposure Draft proposing a change in the current regulations of lease accounting under the International Financial Reporting Standards (IFRS). The proposed IFRS 17 Leases standard change will place nearly all leases on the balance sheet as both an asset as well as a liability, in order to give a more truthful image of a company's capital structure (Billenness, 2010). The motivation behind the change is that the current standard, which treats financial and operating leases differently, has caused comparability issues between companies. The IFRS and United States Generally Accepted Accounting

Principles (US-GAAP) currently have diverging criteria for defining operating and financial leases causing further comparability issues.

The IFRS 17 Leases standard change creates special requirements for companies' Financial Communication as a number of external stakeholders are affected. According to Billenness (2010), investors need to be aware of the changes in financial figures and increased volatility on the income statement and the balance sheet. Communicating the change and its implications is thus important to avoid any unwanted reactions from external stakeholders.

There is limited academic research on the IFRS 17 Leases standard change or its effects on companies from a communicational perspective, since the publication of the first Exposure Draft introducing the suggested change in August 2010. Many auditing firms have published guides which map out the financial, administrative and managerial implications of the change, but do not specifically address Financial Communication. Some researchers have studied the motivation for the change and the fundamental policy changes brought on by it, such as corporate real estate strategy. Questions have also been raised about the effects of the proposed accounting changes in respect to economic conditions, financing issues, tax considerations, government and budgetary issues, regulatory issues and operational issues. Nevertheless, all of these questions are likely to have communicational implications as well.

The study of the IFRS 17 Leases standard change is essential as the current requirements of financial reporting are not attuned towards the users of the information (Flegm 2009, see also Thomas, 2003, DiPiazza & Eccles, 2002 and Gaa, 2010). Similarly the ever widening group of stakeholders emphasizes the need for studying Financial Communication, from an increasingly communicative, cross functional and strategic point of view.

1.1 Research Purpose

The purpose of this research is to understand and anticipate the effects of the IFRS 17 Leases standard change on the Financial Communication of a large Finnish multinational with significant leasing activities, coined Company X. The study seeks to uncover the extent of these effects, in terms of scale and scope, i.e. understanding the importance and depth of these effects, as well as how wide spread these effects are across the different departments of company X. Once uncovered, the study seeks to make recommendations to Company X based on these effect and their consequences in order to mitigate them.

The study at hand addresses the above issues arising from the IFRS 17 Leases standard change through the following main research question:

- What are the expected effects of the IFRS 17 Leases standard change on the Financial Communication function of Company X?

The main research question is addressed with the following research questions:

1. How is the changing treatment of leases under IFRS 17 expected to affect users of financial information?

2. How are the increasing requirements of the IFRS 17 Leases standard expected to affect Company X's Financial Communication process?

3. How is the IFRS 17 Leases standard change expected to affect company X's Financial Communication outputs and disclosure?

The research concentrates on the main stakeholders of the markets for information, i.e. providers of financial information, users of financial information and regulators of financial information. By understanding the motives of these stakeholders and how they communicate with each other, this study can identify the effects and consequences

of the IFRS 17 Leases standard change on the Financial Communication function of Company X.

In addition to the main purpose of the research, this study also seeks to reduce the lack of academic research relating to the upcoming IFRS 17 Leases standard change. Although many of the big four accounting firms have published studies on the upcoming change, there is very limited independent academic research on the subject.

The study further aims to bring an International Business Communication perspective to the study of accounting standards as most research on accounting standards is conducted within accounting and finance departments. Financial Communication is by definition a cross disciplinary function which would benefit from the study of accounting changes from a communicational viewpoint. Furthermore, with the expansion of Financial Communication onto a widening array of stakeholders and the increasing frequency of standard changes, there is a substantial need for research addressing change communication and stakeholder analysis.

The study is conducted as a qualitative research. The choice of data collection is semi-structured interviews with Financial Communication professionals, financial analysts as well as an auditor. Interviewees are selected according to their position and availability. As communication is a reciprocal process, it is vital to get interviews from all sides of the change, i.e. providers, users and regulators of financial information.

The research concentrates on a Finnish industrial company[3] operating internationally. This is in order to limit the scope of the study while bringing an essential international point of view. Company X was chosen also due to the effects of the change being most significant among companies that have considerable operational leases. Thirdly, the company in question was suitable for the purpose of this study as it is a stock listed company, and thus has to fully comply with IFRS regulations.

[3] For confidentiality purposes, the study will use the pseudonym “Company X”

1.2 Case IFRS 17 Leases

Since the IFRS 17 Leases standard change as a topic is highly technical, the most significant effects of the change on the balance sheet, income statement and Key Performance Indicators (KPI) are summarized below. The change is expected to have significant quantitative and qualitative effects on companies' financial statements that have operating lease contracts, under the current standard.

According the current standard called the IAS 17 Leases, lease contracts are divided into operating lease contracts and finance lease contracts (IASB 1997). The division is based on the financial risk and reward relating to the leased asset, which remains with the lessor in operating leases, and is transferred to the lessee in finance leases. Operating leases are not recognized on the balance sheet, whereas finance leases are. This has caused incomparability issues between companies, as many attempt to formulate lease contracts so as to minimize the balance sheet effect (Biondi & al., 2011).

In his research, Billenness (2010) concludes that the new IFRS 17 Leases standard will have its largest impact on the balance sheet. As all long-term leases will be capitalized on the balance sheet as assets and liabilities, the total amount of the balance sheet will increase. This increase will have an effect on key financial ratios such as leverage, liquidity and profitability. Leverage will increase as leases will be considered interest bearing liabilities. The increased leverage may also cause issues with debt covenants.

On the income statement, lease expenses currently associated with operating leases, such as rents, will be divided into interest expenses and amortizations (Billenness, 2010). Key accounting measures such as earnings before interests and taxes (EBIT) and earnings before interest taxes, depreciations and amortizations (EBITDA) will change, due to the interest component.

Based on the research by Billenness (2010), performance measures such as Return on Investment (ROI) and Return on Assets (ROA) may change due to both returns and total assets changing. These indicators are especially important for equity and bond

markets, as well as other financers such as debtors and creditors. These measures are used to establish a company's profitability, credit worthiness and efficiency.

1.3 Key Concepts

In order to understand the IFRS 17 Leases standard change, it is crucial to have a basic grasp of the key concepts used throughout this study. This subchapter presents some definitions by International Accounting Standards Board as well as certain conceptual choices made for the sake of this research. These conceptual choices are outlined to the reader in order to provide clarity and consistency. This subchapter also presents the most important acronyms and financial KPI's used in this study

FINANCIAL COMMUNICATION

Financial Communication is the term used in this study for all efforts undertaken in order to convey the financial image of a company. This includes Financial Statements and Notes, Investor Communication and Investor Relations. The reason for this is based on the fact that Financial Communication needs to address a growing number of stakeholders, which makes the terms "Investor Relations" and "Investor Communication" outdated. This definition aims to emphasize the communication of a company's financial health, the sustainability of its earnings and its investment story to all stakeholders that may be concerned with them. Throughout this study, the term Financial Communication is capitalized, referring to the discipline of Financial Communication as an alternative to Investor Relations.

EXPOSURE DRAFT

An Exposure Draft (ED) is a proposition to change an existing International Accounting Standard (IAS) into a new International Financial Reporting Standard (IFRS). An Exposure Draft is published by the IASB before the final formulation of a new IFRS standard. An exposure draft is commented on by the accounting community. These comments are taken into account in the finalization of the new standard by the IASB.

The first Exposure Draft for the upcoming IFRS 17 Leases standard was published in August 2010 for commenting and the final standard was expected to be published in mid-2011. However, the standard was delayed to allow for the publication of a second exposure draft in May 2013. The final standard is expected to be published sometime between 2014 and 2015.

LEASE

The current International Accounting Standard on Leases (IAS 17) defines a lease as "An agreement that gives the landlord to the tenant, in exchange for payment of a lump sum of money, or a series of payments or contributions, the right to use an asset over a period of time." (IASB 1997, p.3) The current standard recognizes two types of leases. A financial lease is a type of lease in which all risks and rewards of ownership of assets are transferred substantially to the lessee. A financial lease is recorded in the balance sheet under the current IAS 17 standard. An operating lease is any lease agreement other than financial leasing. Operating leases are recognized as a linear expense, during the course of the lease term under the current IAS 17 Leases standard. (IASB 1997, p.4)

The Exposure Drafts for the new IFRS 17 Leases standard propose a new definition for a lease as "a contract in which the right to use a specified asset or assets is conveyed, for a period of time, in exchange for consideration" (IASB 2010a). The new definition would thus distinguish a lease from a contract to purchase or sell, as well as from a service contract. This definition would abolish the distinction between financial and operating leases, which is said to cause comparability issues.

FINANCIAL INFORMATION MARKETS

A concept introduced by the author, which is adapted from Barker's (1998) as well as Ikäheimo and Mouritsen's (2007) research and represents the constant interaction between users, providers and regulators of financial information. This provides the forum in which companies engage in Financial Communication. Financial Information Markets are presented more in detail in Chapter 2.3 (Theoretical Framework)

USERS OF FINANCIAL INFORMATION

The author defines the users of financial information predominantly consisting of individuals or legal entities that use financial information for the purpose of making investment decisions, such as shareholders, bondholders, analysts and other companies. However, it can be argued that a wider group of stakeholders is concerned with the financial health of a company, and thus the interpretation is widened to include any party that may have a stake in a company's finances, such as creditors, clients, suppliers, governments and others.

PROVIDERS OF FINANCIAL INFORMATION

The author defines providers of financial information as mainly constituting of individuals and legal entities that contribute information to the Financial Information Markets. Providers include, among others, controllers, Financial Communication Professionals, Sell-side analysts as well as executives and Board Members. Some providers simultaneously act as users, such as sell-side analysts, who use companies' financial information and provide analysis for investors.

REGULATORS OF FINANCIAL INFORMATION

The author defines regulators of financial information as consisting of regulatory entities that have a legal mandate to affect, develop or supervise the disclosure responsibilities of stock listed companies. These include accounting standards boards, accounting committees and other supervisory authorities. Additionally, auditors are considered as regulators as they work to uphold standards set by regulators.

Table 1 provides a list of the main acronyms related to the accounting standards discussed in this research. It also includes the main Key Performance Indicators which are likely to be affected by the IFRS 17 standard change.

Table 1. List of Main Acronyms (IASB 2010b) and Key Performance Indicators (Minjina, 2009)

Acronym	Definition
FASB	Financial Accounting Standards Board, regulatory body in the United States, responsible for the United States Generally Approved Accounting Principles (US-GAAP)
IAS	International Accounting Standard, a standard published by the International Accounting Standards Committee (IASC), which is the predecessor of the IASB
IASB	International Accounting Standards Board, regulatory body in Europe, responsible for the IFRS standards
IFRS	International Financial Reporting Standard, accounting standards published by the IASB
SEC	Securities and Exchange Commission, Government commission that regulates securities markets in the United States
Key Performance Indicator	
EBIT	Earnings Before Interest and Tax
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortization
EV	Enterprise Value, i.e. market capitalization plus net debt and minority interests. EV is used in valuation multiples such as EV/EBIT
P/E-ratio	Price to Earnings ratio, i.e. share price divided by earnings
Price-to-Book	Share price divided by the book value of a company's tangible assets
ROI	Return on Investment
ROA	Return on Assets

1.4 Structure of the Study

The thesis at hand consists of six chapters. Chapter 1 is the introduction, which briefly presents the theoretical background of the thesis as well as its motivation and research gap. Chapter 2 presents the literature review relating to Financial Communication theory and strategic communication, as well as the Theoretical Framework. Chapter 3 consists of the research method, data collection, data analysis and presentation of interviewees. Chapter 4 presents the main findings from the empirical research. Chapter 5 discusses the main findings of the study, in light of earlier research presented in the literature review. Chapter 6 presents the conclusions drawn from the research, recommendations, limitations identified in the course of the research process and gives suggestions for future research.

2 Literature Review

The following chapter presents the theoretical background associated with this research, which is divided in three parts. The literature review begins with an overview of the Financial Communication function and presents theories of Corporate Governance on how interaction between stakeholders enhances the quality of financial information. The first subchapter also discusses the development of Financial Communication and Reporting. The second subchapter studies the principles of Strategic and Integrated Communication as well as theories on strategy formulation and stakeholder analysis. The third subchapter presents the Theoretical Framework.

2.1 Financial Communication

The following subchapter discusses the purpose of Financial Communication from the point of view of the capital markets and presents the main tools and strategies of Financial Communication. Understanding these is essential to establish a theoretical basis for the study of the IFRS 17 Leases standard change on Company X's Financial Communication function. The first section presents the stakeholders of Financial Communication and theories on how these stakeholders interact in the capital markets. The second section discusses the purpose and measurement of Financial Communication as well as the benefits of enhanced Financial Communication. The third section addresses issue management in Financial Communication, as well as transition periods.

Virtanen (2010) describes Financial Communication as the information disclosure responsibilities of a listed company, along with determining the nature of information provided, and the tools used to distribute this information. According to Virtanen (2010) the disclosure responsibilities of a European listed company are largely dictated by the local stock exchanges, local legislation and EU-directives. However, these regulations

leave room for interpretation. A central question of Financial Communication is how these regulations are implemented.

Gilfeather (2003) on the other hand describes Financial Communication as having two main dimensions, which are compliance and marketing. Both of these dimensions are essential for establishing a fair market value for company shares. Compliance ensures sufficient disclosure in the markets in accordance with regulations. Marketing as a dimension of Financial Communication, on the other hand aims for adequate awareness in order to guarantee fair valuation, by attracting investors through elaborate communication. According to Inoue (2009, p.65), a fairly valued share price is traditionally considered the principal role of Financial Communication.

Public companies have a legal obligation to publish financial information in the form of annual accounts (Heldenbergh at al., 2006, p.176). According to Virtanen (2010, pp.22-23) the Board of Directors and the Chief Executive Officer have the responsibility to ensure compliance with legal information requirements. Their responsibilities include committing the Board to the adequate governance of inside information, as well as issues relating to Financial Communication and corporate governance, providing a Financial Communication strategy and policy, meeting with key investors and owners as well as advocating for the importance of adequate resourcing and validation of investor relation.

However, Virtanen (2010) acknowledges that Financial Communication is a two-way communication channel between the company's management and its markets which requires constant adjustment to market signals. Ikäheimo and Mouritsen (2007) add that this two-way communication creates value based on past performance, position in an industry and value chain as well as future investments and activities..

Thus Financial Communication is not only about providing financial information (Gilfeather, 2003), but about conveying the company's investment story to its investors (Virtanen, 2010, p.23). Providing the right information that supports the investors'

image of the company's business, strategy opportunities and strengths include, according to Virtanen (2010, p. 23):

- Communicating the essence of the business, its operations, and its earnings logic
- Introducing the industry, its structure, and its outlook
- Presenting the mission, vision and strategy
- Identifying existing and future markets, customers and products, as well as research and development, investments, and emerging technologies
- Disclosing the historical and future financial position, profitability and sustainability
- Elaborating on the management, their competence, and compensation models

As discussed by Virtanen (2010, p.24), investors are especially interested in the future outlook of the company and the sustainability of their income, since the share price essentially reflects the net present value of future cash flows. However, emphasis is not only on the hard numerical information but also the way investors perceive the management's ability to consolidate the company's strategy. Building and maintaining investor confidence is a crucial part of Financial Communication. Management outlook is further emphasized during times of uncertain economic conditions. Ikäheimo and Mouritsen, (2007) point out the interconnectedness of performance, strategy and competence.

Indeed, adequate disclosure on the current and future state of the company is essential for the markets to accurately value shares. Gilfeather (2003, p.3) argues that all investors are entitled to certain fundamental information about a company prior to acquiring its shares. Barker (1998) refers to this information provision as the "market for information" which is susceptible to information asymmetries. The larger the information asymmetry is the more uncertainty is related to the share price. According to Virtanen (2010, pp.26-27), information asymmetries can never be fully abolished due to confidential information that would be harmful to disclose, but the aim of Financial

Communication is to match the market value of the shares with their fair value as well as possible.

Successful Financial Communication can provide companies with a clear competitive advantage (Thomas, 2003). Financial communication can be considered a means to contribute to corporate financing. However, with the constantly increasing disclosure requirements and integrating global markets, maintaining efficient Financial Communication is a major challenge. Listening to the markets, responding to investor needs, following competitors, and developing investor confidence can help earn a notable position in the markets. (Virtanen, 2010,pp.29-30)

Financial communication has a crucial role in the formulation of corporate image and reputation, beyond the realm of simple financial data (Heldenbergh et al., 2006, p.174). By increasing the amount of information provided for the markets, the company can inspire confidence in addition to ensuring a more stable share price based on accurate valuation (Lang & Lundholm, 1996). A proactive Financial Communication strategy is also vital for attracting new investors (Virtanen, 2010, p.106).

However, Gaa (2010) draws attention to the dilemma of disclosing sensitive information on business operations. More informed trading of a company's shares work for a more stable share price but disclosing sensitive information can result in loss of competitive advantage. Thus it is essential to have a clear Financial Communication strategy in order to understand what data is relevant to decreasing share volatility and strengthening reputation. According to Virtanen (2010 pp.106-107), an essential part of a good Financial Communication strategy is candor. Candor, in this context refers to timely profit warnings, realistic guidance, and other information relevant to making investment decisions.

The basis for Financial Communication of a listed company is in periodic disclosure which dates back to the Securities Act of 1933 and the Securities Exchange Act of 1934 (Argenti, 2007, p.158) According to Barker (1998, p.8, see also Virtanen, 2010) periodic disclosure includes results announcements two to four times per year, which

are followed by meetings with analysts, fund managers and the press. Usually, the announcement of the final results for the year is followed by the annual report and published accounts as well as the Annual General Meeting. Each company must publish their disclosure policy which states the principles and practicalities on which the Financial Communication calendar and communication are founded. Inherently all relevant information about a company must be disclosed to all publics simultaneously (Argenti, 2007, p.166). Thus any personal communication and meetings are only to support this disclosure.

Although the annual report is not part of the legal requirements of periodic disclosure, it is the single most important element of Financial Communication (Virtanen, 2010 p.165). The Annual Report represents a key element of building the corporate brand and image into which considerable time and funds are invested (Argenti, 2007, p.170).

Stock exchange releases are published as needed to provide information required by markets regulations (Ikäheimo & Mouritsen, 2007, p.74) such as profit warnings, executive appointments, dividend payments, investments, or other strategic decisions. It is at the discretion of the company to determine what relevant and adequate information consists of, however Virtanen (2010, p.138) notes that these releases support the company’s strategic communication and thus should always be incorporated in the overall corporate strategy.

Investor meetings are arranged with financial experts to bring insight and possibly reduce uncertainties (Ikäheimo & Mouritsen, 2007, p.68). These meetings serve the purpose of enhancing financial information in terms of the quality of management, management style and attitude, as well as company climate and flexibility. According to Virtanen (2010 pp.142-144) a basic investor meeting touches upon most of the following themes:

- Industry, conditions, markets and competition
- Mission, vision and strategy
- Risks, uncertainties and risk management

- Performance figures for the period under review
- Future outlook and performance targets
- The company as an investment target

Investor meetings also help the company management to learn about the financial markets and their stakeholders to better understand their information needs and expectations, in terms of strategy, operations and competitiveness (Ikäheimo & Mouritsen, 2007, p.68).

According to Gilfeather (2003, p.7), in addition to investor meetings, road shows are an important way for companies to meet investors and analysts. Road shows vary largely in form and scale, and can range from a series of face-to-face meetings to internationally organized tours. Argenti (2007, p.171) points out that road shows are a perfect example of proactive Financial Communication, which give the opportunity to convey the "true feel" of the company and its management. Similarly, capital markets days are a vital medium of Financial Communication (Virtanen 2010, p.182). The press is often invited to attend capital markets days, as financial, online and general media represent a key stakeholder for Financial Communication (Gilfeather, 2003, p.4). Finally, the annual general meeting for shareholders gives the investors the chance to see the Board and the CEO live in person for a chance to address their questions and concerns can inspire confidence in investors and increase shareholder loyalty (Virtanen 2010, p.182).

With the development of communication tools, the Financial Communication section of a corporate webpage has become a crucial part of functioning Financial Communication. This type of disclosure is not a legal requirement (Virtanen, 2010, p.171) but another example of proactive Financial Communication (Argenti, 2007, p.173). According to Virtanen (2010, p.185) there is a multitude of other elements which contribute to Financial Communication, such as fact sheets, letters, magazines, and advertisements. Also social media is increasing its importance in Financial Communication in the form of web casts, pod casts, blogs and internet community pages.

The next section presents the stakeholders of Financial Communication and theories on how these stakeholders interact, followed by the purpose and measurement of Financial Communication as well as the benefits of enhanced Financial Communication. The third section addresses issues and transitions in Financial Communication.

2.1.1 Stakeholders of Financial Communication and the Capital Markets

The capital markets consist of several stakeholders that the author has grouped into the users of financial information, the providers of financial information and the regulators of financial information. This section provides a summary of who these stakeholders are in order to establish the forum in which Company X engages in Financial Communication. This section also presents theories on how these stakeholders interact to shed light on the interdependencies within the capital markets.

Companies form the clear majority of the providers of financial information, in the capital markets. According to Virtanen (2010), this information provision is mainly done through periodic disclosure, annual reports and meetings. Other stakeholders may also provide financial information by enhancing the information supplied by companies (Barker 1998, see also Lang & Lundholm, 1996).

The users of financial information are a diverse group of stakeholders. According to Virtanen (2010, p.68), one of the most important of these stakeholders is investors who fall mainly under two categories, private investors and institutional investors, with different expectations, investment horizons and different information needs. The former includes a growing number of private persons, whereas the latter consists of both domestic and foreign institutions such as pension funds and investment funds. Gilfeather (2003, p.6) argues that in addition to information provided by companies directly individual investors often use input from analysts and other representatives.

Another group of users are analysts, who also fall under two categories, buy-side analysts and sell-side analysts (Gilfeather, 2003, p.5). Buy-side analysts work for institutional investors that follow certain companies for investing the funds managed by

said institution, while sell-side analysts work for asset management companies who conduct analysis in order to provide investment services and advisory (Virtanen, 2010, p.72). Sell-side analysts enhance financial information provided by companies through analysis, and thus contribute to financial information used by institutional investors (Barker, 1998).

As a stakeholder of the capital markets, regulators dictate largely the disclosure responsibilities of a listed company through stock exchange rules, local legislation and EU-directives (Virtanen, 2010). However, these regulations only state minimum requirements, and are complemented by standards from different authorities, such as the Financial Supervisory Authority (FIVA) in Finland (Virtanen, 2010), and the SEC in the United States (Gilfeather, 2003).

The Financial Supervisory Authority (FIVA) is responsible for monitoring the disclosure of periodic information, insider trading and quality of IFRS financial reporting by companies listed on NasdaqOMX Helsinki (FIVA, 2012). Since 2005 listed companies in the European Union need to comply with International Financial Reporting Standards (IFRS). These accounting standards aspire to serve the information needs of investors (Ikäheimo & Mouritsen, 2007, p.65). The IASB based in Europe and the FASB, based in the United States, are jointly harmonizing and converging accounting standards in order to increase comparability between European and American companies.

The following paragraphs discuss how the users, providers and regulators interact in order to form well-functioning capital markets. In addition to the stakeholders presented above, there exists a myriad of other stakeholders of Financial Communication. Gilfeather (2003) identifies advisory services, the media and retail representatives. Heldenbergh et al. (2006) continue the list with all creditors, clients, suppliers, credit rating agencies, local authorities and governments. However, these stakeholders are less in focus in this research as they are not crucial for the functioning of the capital markets.

According to Roe (2004), information distribution is essential to ensure that shareholders possess enough information on their companies, such as their finances and operations. This information is required for the pricing of shareholders securities. However, simply complying with reporting regulations does not necessarily fill the information needs of investors, and thus voluntary Financial Communication becomes a central issue of corporate governance.

The OECD Principles of Corporate Governance (OECD, 2004) strives to ensure well-functioning capital markets by enhancing information efficiency, enabling market prices to quickly and accurately respond to the emergence of new information. The first Principle of Corporate Governance states the following:

> *The corporate governance framework should promote transparent and efficient markets, be consistent with the rule of law and clearly articulate the division of responsibilities among different supervisory, regulatory and enforcement authorities. (OECD 2004, p.17)*

Lang and Lundholm (1996, pp.1-2) emphasize the importance of financial analysts in functioning capital markets. The minimum level of information available to these analysts is dictated by market regulations. However, the amount of information provided by companies varies greatly, in terms of voluntary disclosure, as well as the quality and extent of mandatory disclosures. Lees' (1981, as cited in Lang and Lundholm, 1996) ranking of analysts' information sources in order of importance below sheds light on analysts' priorities.

1. Interviews with company executives
2. 10-K and other reports to the SEC
3. Annual and interim shareholders reports
4. Management forecasts (if issued)
5. Formal presentations by company executives

Lang and Lundholm (1996) conclude that companies can improve the accuracy of market expectations, increase following and reduce information asymmetry by engaging

in proactive corporate disclosure. This includes both quantitative data, such as management guidance, as well as more qualitative data such as different announcements and management discussions.

Barker (1998) introduces a framework for the “market for information” with regards to information asymmetry and information efficiency (Figure 1). He studies the economic incentives of finance directors, analysts, and fund managers with respect to stock market information flows, the quality and quantity of information, and the process of how information transfer leads to decisions and price information.

According to Barker (1998) limited availability of financial information provided by companies would disrupt the functioning of capital markets, even if those markets would be efficient in the traditional sense. He establishes the emergence of a tripartite structure between companies, analysts and fund managers, illustrated in Figure 1. In Figure 1, companies provide information to both analysts and fund managers. Analysts on their part enhance this information and provide their analysis to fund managers. As a fourth force, he identifies the role of accounting standards boards (ASB), which influence the information provided by companies. The main idea behind Figure 1 is that the information provided by companies is inadequate, and needs to be complemented by financial analysis.

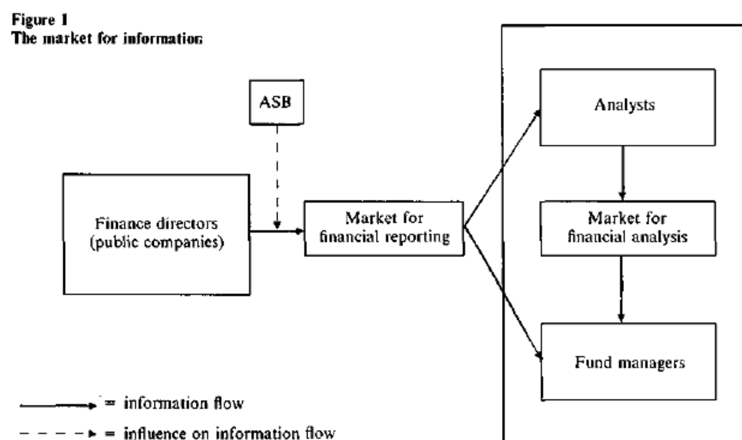

Figure 1. Market for Information

Barker's (1998) study concludes that financial directors are concerned with undervaluation and over-valuation of company shares, and commit considerable efforts by the senior management to keep the markets informed. His findings emphasize the "dynamic and strategic nature of shareholder communications" (Barker 1998, p.8).

Lang and Lundholm (1996, p.24) support Barker's evidence that analysts are not in direct competition with company disclosures, but rather complementary. Markets seem to have a basic level of information requirements, which must be fulfilled one way or another. Thus, if the information is not provided by the company in the form of Financial Communication, the stakeholders will turn to other sources.

Ikäheimo and Mouritsen (2007) establish the interdependence of companies and financial markets from the perspective of a two-way communication model (Figure 2). The model defines the difference between market value and fair value of companies and emphasizes the fact that Financial Communication activities create an information ecosystem through constantly circulated information among stakeholders. In Figure 2, a company's share performance is affected by the company's business activities (1) as well as investors' and analysts trading activities (3). Investors and analysts, on the other hand, are affected by the company's communication activities (2).

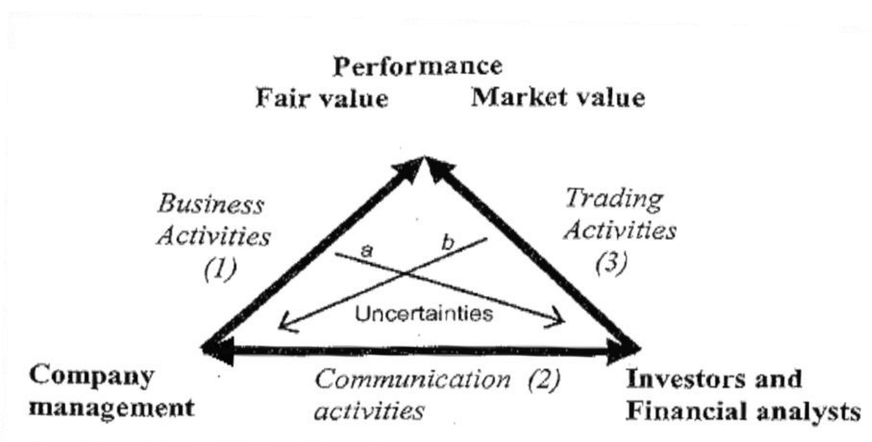

Figure 2. Communicative Role of Investor Relations between Fair Value and Market Value

Ikäheimo and Mouritsen (2007, p.64) note, that the market value of companies can be affected independent of the fair value of the company, implying that Financial Communication efforts not only decrease information asymmetry, but can also create value. Financial communication function is the "gatekeeper of Financial Communication, and defines the order of importance among stakeholders in favor of shareholders" (Ikäheimo & Mouritsen, 2007, p.68). They also argue that companies can thus create insight about business operations, corporate governance and management control, and influence the market as well as learn about disclosure policies through interaction.

According to Gaa (2010, p.179) the natural asymmetry of private information between management and stakeholders creates the need for strategic decisions on both disclosure and secrecy. Because all organizations have external stakeholders that have a legitimate interest in the organizations activities, transparency is one of the building blocks of corporate governance. Thus, in order to balance keeping legitimate business secrets with transparency, a company needs to have a well-established Financial Communication strategy for external stakeholders.

Gaa (2010) argues that all companies inevitably have a strategy for communicating with external stakeholders, whether this strategy is explicitly addressed or not. He conducts a study of a subset of corporate disclosures, including the financial information disclosed in official press releases, meetings with analysts and other outsiders, financial statements disclosed to the public, and similar activities. Gaa (2010, p.180) concludes that information disclosure needs to be balanced across these communication tools. According to Heldenbergh et al. (2006, pp.180-181), Financial Communication needs to also address different stakeholders with different levels of expertise. Thus it is essential for the communicators to create an adequate communication mix in order to ensure efficient Financial Communication.

Formulating a communication strategy is the responsibility of the board of directors, whereas carrying it out is the responsibility of the management (Gaa, 2010, p.179). This distinction of responsibilities is in line with that of Virtanen (2010), although more

specific. She establishes that the extent to which the Board of Directors is involved in the formulation of Financial Communication strategies varies significantly across companies. However, Virtanen (2010) clearly emphasizes the need for such a communication strategy.

This section presented the stakeholders of Financial Communication and how these stakeholders interact in the capital markets. This research is based on the assumption that the stakeholders of Financial Communication are affected by the IFRS 17 Leases standard change in several ways and thus it is crucial to understand their motivations and the information ecosystem that they create.

2.1.2 Objectives, Measurement and Benefits of Financial Communication

The following section discusses the purpose of Financial Communication and reporting, and the efforts made in recent history to make sure accounting regulations serve this purpose. The section also discusses the challenges of measuring Financial Communication. Finally, the section presents evidence of the benefits of enhanced Financial Communication, and theories on how to achieve it. Understanding the purpose and added value of Financial Communication is essential for the study the accounting standard changes from a corporate communication perspective.

According to Louis Thompson (as cited in Inoue, 2009, p.65), the former president of the National Investor Relations Institute (NIRI), the fundamental purpose of Financial Communication, including communication and reporting, is to tell investors how the company is making money.

> *"To do so requires that companies disclose information beyond financial performance, to include the growing importance of non-financial factors and intangible assets that today make up a significant portion of a company's market value" (Thompson, as cited in Inoue, 2009, p.65)*

The purpose and usability of financial reporting come periodically under scrutiny. Shahwan (2008) conducts a historical review of four key reports addressing the fundamental assumptions of financial statements. Similarly to IFRS standards, a common ground for all four reports is the basic objective to provide users of financial statements with information useful for decision making. The main emphasis for achieving this is by reflecting economic reality in balance sheets, income statements and cash flow statements, in a relevant and reliable manner.

In 1971, in a major attempt to develop financial statements, The Trueblood Committee composed of academicians, accounting practitioners, industry professionals and analysts established the need for continuous updating of financial standards (Shahwan, 2008, p.193). The Accounting Standards Committee in the United Kingdom undertook a similar effort to revise the scope and aims of published financial reports. The report states that reporting principles do not fully meet users' needs as

> *"…the fundamental objective of corporate reports is to communicate economic measurements of and information about the resources and performance of the reporting entity useful to those having reasonable right to such information".*

In 1988, the MCRV report further emphasized the link between accounting and decision making. According to the report, "An efficient market requires the communication of useful information from management to investors" (Shahwan, 2008, p.196).

According to Flegm (2006), financial reporting does not have clear enough objectives. Users of financial information have different needs which are difficult to address in a coherent way. Shahwan (2008) points out that real improvements in the current financial reporting have yet to be achieved despite serious attempts by different authorities in the accounting profession.

Shahwan (2008, pp.199-201) concludes that financial reports should assist managers in reporting on the economic resources entrusted to them, and provide information to the

owners of those resources, i.e. investors, on whether their investments are efficiently managed. These two objectives are referred to as “stewardship” and “decision-usefulness” functions of financial statements. Although the means by which this development is achievable are different, and the points of emphasis differ, the inadequacy of reporting standards is clear, as reporting standards do not fully address the information needs.

Gaa (2010, p.182) argues that in order for companies to fulfill investors’ information needs, companies’ Financial Communication needs to go beyond the minimum requirements of financial reporting. The efforts made by the FASB and IASB (IASB 2010b) are driven mainly by the aim to enhance the usefulness and the faithfulness of information. Usefulness refers to information that “is capable of making a difference in the decisions made by users”. Faithfulness of information on the other hand refers to the “economic phenomena it purports to represent”. Thus the information needs to capture the substance of the events and not merely their legal form (Gaa, 2010, p.182).

Traditionally the main aim of Financial Communication is to reduce information asymmetry (Inoue, 2009). However, according to Virtanen (2010) information asymmetry is difficult to measure due to the fact that a company’s share performance and business operations are subject to a number of internal and external forces. Thus it is extremely challenging to pinpoint the effects of efficient Financial Communication and the proportion of information asymmetry. Argenti (2007, p.175) notes that most attempts to quantify the effects of Financial Communication on either share price or the cost of capital have yielded minimal results

The measurement of Financial Communication is challenging due to problems concerning quantification. However, several measures can be used as indicators of good Financial Communication practices. Virtanen (2010) divides these measures into qualitative and quantitative measures. The former consists of perception studies and awards, and the latter of analyst following, ownership structure, share performance and number of investor meetings. The combination of the above measures can give insight

as to whether a company is performing its Financial Communication well, on a practical level.

Gilfeather (2003, p.9) divides the products of Financial Communication into two categories, outputs and outcomes. Outputs are direct results of the communication strategy implemented. These outputs include, the number of analyst reports written, the quality of analyst coverage in terms of who is writing and what is written, as well as the quantity, quality and favorability of media coverage. Outcomes on the other hand, include fair valuation, as well as P/E ratio compared to industry peers, a desirable trading volume, and increased reputation in the form of accolades.

Enhanced Financial Communication in the form of better disclosure policies have been researched by Lang and Lundholm (1996). In their study, they address all essential aspects of disclosure from the point of view of analysts. Their research provides evidence to support the benefits of such central principles of Financial Communication as accuracy and timeliness. The more accurate and timely corporate disclosure is, the less analyst forecasts are affected by alternative sources of information. Their findings are especially valuable due to categorized firm data which quantifies qualitative disclosure and other information that is not reflected in financial statements.

Lang and Lundholm (1996, p.1) report that wider following and more accurate investor estimates contribute to lowering information asymmetry, which is associated with a lower cost of capital. On the other hand, disclosing strategic choices and value-creating activities can increase proprietary costs (Gietzmann, Shyla & Thomas, 2003, see also Inoue, 2009). Thus, in order to get a better idea of the costs and payoff of more holistic reporting, it is vital to understand two things; firstly, assess the quality of reporting relative to peers, and secondly, understand the current sources of share price volatility of a company relative to its peers. By gaining insight on these two elements, it is possible to analyze what aspects of the communication strategy contribute to undue fluctuations in share price.

According to Thomas (2003) since the adoption of the Sarbanes-Oxley act and the subsequent regulations introduced by the SEC in the United States, financial reporting has gained additional attention in terms of the processes that create sound corporate reporting. With the emergence of industries, the success of which is dependent far more on intangible assets and competences, increasing emphasis is set on strategic reporting.

Thomas (2003, p.63) suggests practical steps such as introducing a "coherent framework of supporting information" which would help better serve the needs of investors, and thus the needs of the company in the future. This would address the quality and the sustainability of corporate performance, allowing differentiation between good and bad management, as well as between luck and skill. Thomas' (2003, p.65) suggested improvements are underpinned by such publications as DiPiazza and Eccles (2002) and the PricewaterhouseCoopers series of global industry surveys which have produced the ValueReportingFramework.

DiPiazza and Eccles (2002) present a model consisting of three "tiers" of information as shown in Figure 3. The first tier consists of the currently used financials related to corporate performance and forms the basis of the whole model. The second tier consists of industry based standards which respond to the need for industry wide metrics in order to create comparability. The third tier provides company specific information which gives insight to strategic choices related to taking advantage of opportunities and managing risks. According to Thomas (2003) these three tiers would help investors to get a clearer picture of the sustainability of corporate earnings.

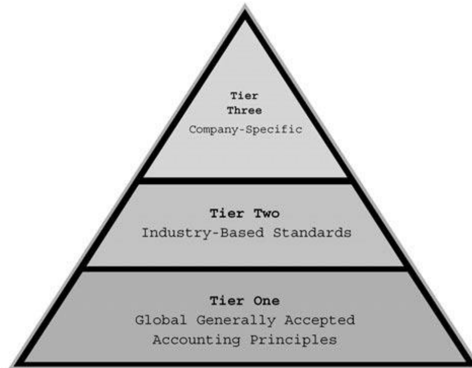

Figure 3. Three Tier Model of Financial Information

Investors come in various forms, from very long term oriented institutional investors such as pension funds, to the extremely short-term oriented day traders and arbitrageurs. According to Thomas (2003), if a company attracts considerable amounts of short-term oriented investors, the share will become more volatile. Thus a key issue in order to lower volatility is to find out what sort of financial and corporate communication attracts more long term investors.

Research by PricewaterhouseCoopers (as cited in Gietzmann, Shyla & Thomas, 2003) on the information required by long-term investors reveals rather homogenous expectations and shortcomings of financial reporting in different industries. Generally investors agree to a large extent on the types of information they need. However, less than 30 percent of critical information cited by the respondents is covered by the financial reporting standards. A reoccurring theme found by the research across industries was the overall dissatisfaction in the quality and credibility of non-financial information.

Lang and Lundholm (1996) researched the association between corporate disclosure policies and analyst behavior vis-à-vis company following and earnings forecasting. In their research, they found that more informative disclosure policies have a positive effect on analyst flowing. Additionally, informative disclosure policies contribute positively to the accuracy of earnings forecasts, the dispersion of individual forecasts and the volatility of forecast revisions.

As greater analyst following and more accurate earnings forecasts correlate with more informative disclosure policies, Lang and Lundholm (1996, p.2) conclude that differences in analyst forecasts must originate from non-firm provided information, rather than commonly available information. These findings are relevant to accounting professionals, managers and other providers of information, as well as regulators, and suggest that a lack of additional qualitative disclosure is the source of volatility in estimates, as opposed to interpretation of mandatory financial data, emphasizing the strategic nature of Financial Communication.

Financial communication professionals need to increasingly address multiple stakeholders, such as employees, customers, communities, the media and shareholders. However, due to the undeveloped theoretical field of Financial Communication (Inoue, 2009, p.64), and the common practice of organizing Financial Communication under the CFO (Virtanen, 2010, p.115), it can be argued that the average Financial Communication professional does not possess much educational background or expertise specifically related to strategic communication. (Inoue, 2009, p.64)

Laskin (2009, p.213) defines Financial Communication as a "relationship management activity rather than just publishing financial information and thus, has a close resemblance to public relations and strategic communication practices in general rather than to accounting or financial reporting". There exists a clear misalignment with the principles and practices of Financial Communication in terms of Financial Communication being widely considered a finance function but requiring "effective two-way communication between a company, the financial community, and other constituencies" (NIRI, 2003, as cited in Inoue, 2009, p.69). Until now, Financial Communication has been heavily vested in the financial community, without seeking permanent relationships with its constituents.

Heldenbergh et al. (2006, p.179, see also Virtanen, 2010) identify "immediate, distinct and reassuring Financial Communication" as a discretely managerial responsibility. Furthermore, this communication is essential in order to reassure shareholders of the stability of the share price and the company's financial image, as well as limit the

emergence of false information. According to their study, In the case of an information vacuum, stakeholders start being increasingly influenced by other sources then the firm. This phenomenon resembles the way that rumors can develop in a crisis situation. It is also supported by the Financial Communication framework presented by Barker (1998), which emphasizes the constant flow of information between companies, fund managers and analysts.

This section presented the basic theories on the objectives and benefits of Financial Communication, and how they have been addressed over time. It also shed light on the challenges of measuring the success of Financial Communication. These theories are pivotal in order to understand and mitigate the effects of the IFRS 17 Leases standard change on the Financial Communication function of Company X.

2.1.3 Issue Management in Financial Communication

The following section presents the research undertaken in the field of issue management both in terms of crises of different magnitude as well as less severe issues such as transition periods from the point of view of Financial Communication. As a considerable change in corporate reporting the IFRS 17 Leases standard change is an issue, as defined by Cornelissen (2008, p.215) that Company X will need to address. Thus studying literature on issue and crisis management is essential for the research undertaken in this thesis.

Several corporate crises resulting from a failure of corporate governance have sparked a field of corporate communication called "Issue and Crisis Management" (Cornelissen, 2008, p.214). These crises have fundamentally shaken the reputation of several companies involved in the individual crises, as well as the overall trust of the public in corporations. As the President of TowerGroup, Alan Towers puts it, "Enron's blow to investor faith is the Watergate of business. Trust will no longer be assumed. Companies will have to earn it with behavior, communications and leaders that inspire confidence" (as cited in Allen, 2002, p.207).

According to Cornelissen (2008, pp.214-215) Issue and Crisis Management is based on the identification and analysis of issues, in order to formulate a response that minimizes the adverse effects of the issue on the company reputation vis-à-vis stakeholders. An issue is defined as a concern about an organization's decision or operations, which may also involve a conflict in opinions or judgments. An issue is the preceding state of a crisis, although not all issues evolve into crises. A crisis however requires immediate and decisive action from the organization. Thiessen and Ingenhoff (2009, p.9) argue that when an issue becomes severe enough to threaten the reputation of a company, the importance of communication increases.

Cornelissen (2008, pp.216-223) describes issues as being latent, active or intense, before developing to full blown crises. Usually external pressures, such as media attention, contribute to the development of issues and crises. As these externalities are often difficult to predict, companies need to have ready-made communication strategies for dealing with acute issues. An issue management process is based on the following stages, as defined by Cornelissen (2008, pp.216-223):

1. Environmental scanning: An overview of the forces affecting the company's operating environment, as well as the company's ability to respond to these forces.
2. Issue identification and analysis: Prioritizing emergent issues based on urgency and potential impact, as well as monitoring issue specific conditions that affect their development.
3. Issue-specific response strategies: Evaluating the severity of the issue at hand and tailoring a response accordingly. Basic responses include buffering, bridging and advocacy, which represent different levels of mitigating the issue from avoiding it to honing it in.
4. Evaluation: Mapping of the effects of the issue on reputation of the company and the perceptions of its stakeholders.

According to Cornelissen (2008, p.224), crises emerge when companies do not address an issue early enough. In general crises can be a result of either external or internal

causes, as well as intentionally or unintentionally. The nature of the crisis largely dictates the appropriate communication strategy. However, these strategies are much more elaborate and sensitive than issue management strategies, and depend on the public's perception of the situation.

Heldenbergh et al. (2006, p.187) compare the abnormal communication requirements of a transition period to those of a crisis situation. They base this idea on empirical evidence which highlights the need to develop tools and strategies specific for the individual situation. Heldenbergh et al. (2006, p.187) emphasize the need for adequate resources in the preparation for such a situation in order to adapt messages to the different audiences, and thus communicate the effects of the change efficiently.

Heldenbergh et al. (2006) argue that Financial Communication is essential to integrate into the overall communication strategy of a company, and that this necessity is emphasized during a period of transition. Financial communication has established an increasingly strategic purpose, as it has shifted away from its original aim of providing financial information, including "every activity involving financial information and the promotion of the financial corporate image". (de Bruin, 1999, as cited in Heldenbergh et al., 2006, p.176)

This section presented the theories on Issue Management and Financial Communication during a transition period. These theories provide insight on the special requirements of Financial Communication during the adoption of the new IFRS 17 Leases standard.

To conclude, Financial Communication between companies and capital markets creates the basis of functioning markets of information. However, this prevailing ecosystem is being pressured by changing accounting standards and emerging communication media. Additionally, a multitude of stakeholders are increasingly concerned with a company's financial health, and thus form part of the stakeholders of Financial Communication. The above pressures underpin the strategic role of Financial Communication and the importance of studying Financial Communication from a more communicative and integrated point of view.

2.2 Strategic Communication

The following subchapter presents an overview of strategic communication, theories of Integrated Communication as well as the principles of formulating a corporate communication strategy and analyzing stakeholders. As established in the first subchapter, Financial Communication has a significant strategic role for companies and thus theories regarding strategic communication provide valuable insight for dealing with the changes in the IFRS 17 Leases standard.

Hallahan et al. (2007) examine an academically driven approach to strategic communication from international and interdisciplinary perspectives. Their study aims to establish a systematic framework for the study of strategic communication. The principle nature of strategic communication as defined by Hallahan et al. (2007, p.3) is "[the] purposeful use of communication by an organization to fulfill its mission".

According to Invernizzi and Romenti (2003, p.349) the strategic nature of communication is influencing companies' governance and management throughout. As a boundary spanning function, strategic communication activities are indispensable for positioning a company among its stakeholders, as well as maintaining its reputation. This strategic function of communication requires "creating symmetrical relations with corporate stakeholders".

Invernizzi and Romenti (2009) highlight that strategic influence that the communication function has on management as well as the organizational development of a company. Evidence of such influence are the emergence such specialized communication functions that complement more traditional ones. Such emerging functions are crisis communication departments, social communication departments as well as Financial Communication departments. Similarly the strategic role of communication professionals has evolved beyond a merely technical or tactical approach.

Strategic communication research has so far suffered from a lack of a common conceptual framework (Hallahan et al., 2007, p.5). However, various communication

endeavors have similar underlying concepts, such as audience analysis, goal setting, message strategy, channel choice and program assessment. With the basic objectives and strategies being similar, communication genres and disciplines are constantly converging.

Hallahan et al. (2007) study strategic communication from three perspectives. They establish the social phenomena that drive the emergence of strategic communication. They also examine the term "strategic" and the role of communication studies as well as look into how meaning is formed and how strategic communication influences the audience.

Based on their research, Hallahan et al. (2007, pp.9-10) find various reasons for using the term "strategic communication" as a common framework for organizational communications. According to Hallahan et al. (2007), these reasons stem from the ongoing convergence of communication functions driven by changes in the business environment as follows:

- The differentiation of communication functions is becoming increasingly ambiguous, due to overlapping interest, practices and common programs involving such functions as Public Relations and Marketing.
- Developing communication and media technologies are increasingly changing the roles of different communication functions, blurring the boundaries of communication disciplines through new media.
- Increasingly various methods for creating an unambiguous "experience" of a company to its constituencies, including what they know of, what they feel for and how they act towards the company.

The strategic communication function has two main dimensions, as argued by Invernizzi and Romenti (2009). The "strategic-reflective" dimension contributes to managerial decision making through gathering and reflecting environmental dynamics. The "consultative-formative" dimension contributes to creating meaning to the above environmental information. In other words, the function of strategic communication is

to promote a more open organization which would be sensitive to its operating environment, its external stakeholders' needs and its wealth of diverse experience.

The crucial issue that is emphasized is nevertheless the fact that strategic communication recognizes "purposeful influence" as the ultimate goal of corporate communication. Combining the different communication functions that may seek different goals, strategic communication contributes directly to the company's mission, vision and strategy, which Hallahan et al. (2007, p.11) refer to as the organization's "purpose for being". It is this emphasis on contributing to both long term and short term endeavors that sets strategic communication apart from other theories of centralized or integrated communication. Although similar in principle to integrated communication, strategic communication emphasizes how an organization communicates across its functions.

The next section presents theories of integrated communication, which complement theories of strategic communication. The second section of this subchapter discusses the formulation of a communication strategy and stakeholder analysis.

2.2.1 Integrated Communication

The present section introduces integrated communication, discusses the pressures driving integration and the benefits of integrating communication functions. The ongoing developments of Financial Communication represent many of the drivers of integration identified by Cornelissen (2008). Additionally, adopting a more strategic approach to Financial Communication will inevitably require a certain level of integration.

Cornelissen, Lock and Gardner (2001) present an integrative conceptual framework for external corporate communication functions in an attempt to narrow the gap between theoretical literature and the described communication efforts of companies. In the past decade, such communication disciplines as marketing communication and public relations, including issues management, public affairs, government relations, corporate

design and community relations have been moving towards increasingly integrated approaches, meaning that communication is organized more into cross functional processes than into functional entities. (Cornelissen et al., 2001)

Recent literature supports the integration of different communication functions on the basis of the value of shared knowledge and skills. Gronsteadt (1996, as cited in Cornelissen et al., 2001, p.70) argues that most communication work cuts across knowledge and skills, the integration of which enhances the understanding of communication disciplines (Stewart 1996). This development allows for a Company to better deal with complex dynamic environments (Van Leuven 1991, as cited in Cornelissen et al., 2001).

Cornelissen et al. (2001, pp.70-71) points out that there has been increasing discussion on how to organize external communication disciplines within organizations. Theorists have separated two distinct theoretical approaches in terms of communication organizations, which are a functional organization and a process organization. A functional organization is one that concentrates the knowledge and skills of different communication functions into separate specialized units. This approach has many documented advantages such as enhanced efficiency and development of capabilities. A process organization features decentralized and dispersed communication functions.

An integrated communication approach argues for a combination of a functional and a process organization (Grunig & Grunig, 1998, pp.149-150). Organizations can be structured similarly to a process organization, where communication with various stakeholders emerges in different places, but the key issue is executing the communication programs in a cross-functional fashion. Communication units functioning independently from each other are less likely to participate in strategic planning, and more likely to emphasize routine operations.

According to Cornelissen (2008, p.20) the concept of integrated communication was developed from the debate over the structuring and roles of marketing and public relations. These disciplines are widely held as both complementary and supplementary,

which created the basis for Integrated Marketing Communication, defined as “a concept of marketing communication planning that recognizes the ‘added value’ of a comprehensive plan that evaluates the strategic role of a variety of disciplines […]”. This concept emphasizes the importance of the strategic role of an elaborate plan in order to enhance clarity and consistency.

Cornelissen (2008, p.24) describes integrated communication as being managed by a holistic framework of corporate communication across disciplines. This integration has been subject to several drivers including market- and environment-based drivers, communication-based drivers and organization-based drivers. Market- and environment-based drivers stem the considerable changes that have occurred during the past decades in organizations operating environment, including increased skepticism, government interference and competition. Organizations need to address more diverse and fragmented stakeholders while maintaining a consistent message. Communication-based drivers refer to the increased need for maintaining a favorable image and delivering a consistent message through various mass media. Organization-based drivers include an increasing need for efficiency as well as the emergence of strategic potential of different communication functions.

Scholars argue that interaction and integration of different functions, generally increases discipline-neutral communication programs in terms of planning, designing and execution. Schultz et al. (1993, as cited in Cornelissen at al., 2001, p.70) call such discipline-neutral programs “zero-based” programs, which refers to considering and adopting techniques and media from other disciplines, and applying them to the traditional approaches of communication departments and personnel. Thus the integrated framework for external communication established by Cornelissen et al. (2001) emphasizes the different aspects of organizational dimensions and environmental conditions to determine the outcomes of communication processes.

Grunig and Grunig (1998) study the benefits of integrated communication functions, from the point of view of marketing and public relations. Their study finds that integrating public relations, including the Financial Communication function, can

enhance the ability to contribute to strategic management. Duncan and Caywood (1996, as cited in Grunig & Grunig 1998, p.147) add that " Communication at the corporate stage of integration must include employees, the media, communication leaders, investors, vendors, suppliers, competitors, government at all stages, and so on."

This section presented the internal and external factors driving the integration of a communication function, as well as the benefits of integration. These drivers are clearly present in Financial Communication, and are emphasized by the IFRS 17 Lease standard change. The integration of communication functions is a prerequisite in order to adopt a more strategic approach to communication.

2.2.2 Communication Strategy and Stakeholder Analysis

The following section presents the principles of formulating a communication strategy as established by Cornelissen (2008). These principles are crucial to understand in order to address the Financial Communication strategy of Company X. This section also discusses stakeholder analysis which is a crucial issue for Financial Communication due to the changing composition of its stakeholders.

According to Cornelissen (2008), a communication strategy is built around the desired perception of the company among its stakeholders. The main emphasis is on narrowing the gap between, or reinforcing the alignment of the corporate reputation, and its vision. A strategy formulation process has many interpretations depending on the school of thought, but most often involves both the management as well as organization in either a deliberate top down or more spontaneous bottom up approach. However, according to Cornelissen (2008), these different approaches share several commonalities:

1. Strategy formulation involves both planned and emergent processes to form a combination of systematic programs and spontaneous behavior and actions that spawn from the organization as a response to its operations. This dual aspect of strategy is also present in communication strategy in terms of pre-structured campaigns and emergent reactions to stakeholders and environmental changes.

2. Strategy concentrates on a wide set of actions that unfold over an extended period of time. This distinguishes strategy from plans and tactics, which are shorter and more specific. A strategy aspires to serve the company as a whole.
3. Strategy embodies the organization's desired future state in relation to its operational environment. A strategy intertwines the concepts of mission and vision with environmental factors to ensure the best possible fit. Thus strategy formulation is a continuous and adaptive process.

Cornelissen (2008) argues that communication strategy is especially concerned with environmental factors due to communication being a boundary spanning corporate function. A strategic approach to communication requires that the communication function is involved in the decision making process of corporate strategy. This involvement is essential as a communication strategy should not be separated from the overall corporate strategy.

Stakeholder analysis is a central issue of successful strategic communication is (Argenti, 2007, p.29). This is done by addressing three main questions: who are the key stakeholders, how do they view the organization, and what do they know about the issue in question. Table 2 below provides a summary of a company's principal stakeholders.

Table 2. Primary and Secondary Stakeholders of Corporate Communication by Argenti (2007)

Primary Stakeholders	Secondary Stakeholders
Employees Customers Shareholders Communities	Media Suppliers Government -Local -Regional -National Creditors

According to Cornelissen (2008, p.38), companies are increasingly dependent on a wider and more dispersed group of investors, customers and other stakeholders. Companies have adopted a more participatory approach to their operations as pressure

from communities and governments drive them towards “corporate citizenship”. Alongside financial performance, social responsibility towards the society is being continuously emphasized. The shift from companies traditionally looking after the benefit of their shareholders, to companies contributing to the social welfare has made communication and stakeholder management more complex, emphasizing two-way communication between various stakeholders. The legitimacy and accountability of a company’s operations have risen to the forefront.

The key stakeholders of a company depend on a number of factors such as size, reach and nature of the business (Argenti, 2007, pp.29-30). Stakeholders naturally have different priorities depending on these factors. They change over time, and are often dependent on the specific situation in which the company is. A crisis is one example of a situation in which some stakeholders may become significantly more important compared to business as usual. Stakeholders interact with each other, and at times some may only be reachable through another, such as reaching the public through the media. However, they do also have competing interests.

Argenti (2007, p.31) claims that the company’s reputation and current image in the eyes of its constituencies is an essential part of analyzing stakeholders. As discussed in the previous section, this is also an important part of the whole process of creating a communication strategy. Most communication is based on trust which directly affects the success or failure of any communication effort. As communication efforts have a clear target in terms of a desired response, the company’s reputation defines the extent of the effort required to meet that target.

A stakeholder’s understanding of a topic is a key factor in the way that they receive and respond to communication (Argenti, 2007, p.32). In addition, the way stakeholders feel about the topic determines how they react and how willing they are to respond.

According to Argenti (2007, p.25), an effective communication strategy is based on three principles of objectives, resources and reputation. The starting point of any particular communication function is to determine its objectives in terms of the

stakeholders in question. Successful communication delivers measurable effects to the audience sparking a desired reaction, thus emphasizing the importance of measuring communication in terms of the audience, instead of the communicator. The second issue is deciding the resources to be allocated to the communication effort in order to achieve the set objectives (Argenti, 2007, pp.25-27). A communication function deals largely with reputation, and thus minimizing short term costs over long term objectives can prove costly. Company reputation is the third issue relevant for determining a corporate communication strategy (Argenti, 2007, p.66). A good reputation is an essential asset that differentiates organization enhancing the way the company is perceived from a managerial perspective, as an employer and even as an investment (Thiessen & Ingenhoff, 2009, p.9).

Company reputation is partially based on various factors of identity and image, such as name, logo, motto, products, other tangibles, as well as the overall way that "the organization is seen from the viewpoint of its constituencies". However, reputation differs from the corporate identity because identity is generated by the company itself whereas reputation is generated both within the company as well as among constituencies. Reputation also differs from company image as an image is a snap shot of the corporation, whereas reputation is consistently built up over time. The current state of the company reputation is a central determinant of the success of its operations, and thus needs to be assessed as part of the communication strategy. Fombrun (1996, as cited in Thiessen & Ingenhoff, 2009, p.10) defines reputation as "the net perception of a company's ability to meet the expectations of all its stakeholders"

In addition to reputation, Cornelissen (2008, p.65) argues that corporate image is a central element of a corporate communication strategy. Companies place great emphasis on the symbolic perception of the company among important stakeholders. Corporate communication is involved with both providing information about the company to support decision making, as well as reinforcing the desired image of the company. Developing a corporate image involves several competitive advantages. Firstly, a corporate image increases the distinctiveness of and awareness about a company. It also

inspires confidence among external stakeholders as well as increases morale among employees. Secondly, a corporate image reinforces the impact of communication efforts to stakeholders. Thirdly, as many stakeholders can have different stakes in the company, creating and maintaining a corporate image will enable it to send a consistent message across different audiences.

To conclude, the incorporation of a company's communication strategy in its corporate strategy is essential for efficient and consistent communication among the various stakeholders of Financial Communication. Financial Communication is inherently a cross functional discipline, combining communication efforts, financial management and accounting. This cross functionality highlights the continuously emerging trend of integration between communication functions, such as public relations, internal and external marketing communication, and HR communication. Similarly, a more holistic approach to communication drives the integration of different communication functions and the enhanced understanding of stakeholders. The forces affecting companies' communication function are especially strong from the point of view of Financial Communication, due to a changing regulatory environment.

2.3 Theoretical Framework

This subchapter explains the Strategic Financial Communication Framework which acts as the Theoretical Framework of this study. The Theoretical Framework presents how and individual company interacts with the Financial Information Markets and how an IFRS change affects this interaction. As this interaction is rather complex, the first part of this subchapter presents how the Financial Information Markets work, as it forms an integral part of the Strategic Financial Communication Framework, which is the Theoretical Framework used in this study. The second part of the subchapter presents the Theoretical Framework itself.

The concept of "Financial Information Markets" shown in Figure 4 is adapted from Barker's (1998) model of "Market for Information" which depicts the information flows from Companies to analysts and fund managers. For the purpose of the present research,

Barker's (1998) model is combined with Ikäheimo and Mouritsen's (2007) model of an information ecosystem. Figure 4 emphasizes the constant interaction and communication between the providers, the users and the regulators of financial information. Financial information is created, shared, enhanced and scrutinized among all stakeholders. Figure 4 also draws attention to the fact that several other stakeholders may take part in this interaction, not traditionally considered stakeholders of Financial Communication. By nature the roles of the stakeholders are partially overlapping, and many stakeholders simultaneously fulfill several roles, as they may contribute to providing, using and regulating information. This overlap is also depicted in Figure 4.

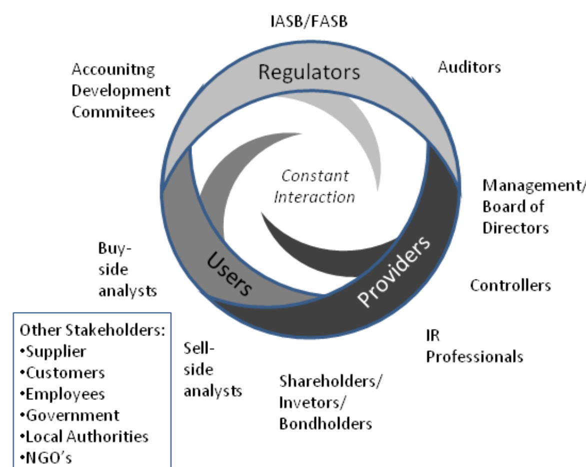

Figure 4. Financial Information Markets

In Figure 4, users utilize and enhance financial information provided by companies. Companies in turn react to the actions of the users. Regulators dictate the disclosure responsibilities of companies based on the needs of the users. Thus each group of stakeholders affects each other. Ikäheimo and Mouritsen (2007, p.64) argue that Financial Communication is "a process of constantly circulated information among parties of interest", where information provided by analysts is complementary in nature (Lang and Lundholm 1996, p.4).

The Strategic Financial Communication Framework illustrated in Figure 5 depicts the effects of IFRS standards on the Financial Communication function of a listed

company, and how this function fits in with the Financial Information Markets. In Figure 5, the Financial Information Markets provide inputs (1) in the form of data, valuation and other feedback. These inputs are processed by the company's various departments involved with its Financial Communication and reporting process (2). The outputs (3) of this process are evaluated against the company's disclosure policies and responsibilities, and communicated back to the Financial Information Markets. The Financial Information Markets react to this new communication and provide new inputs, thus beginning the cycle again.

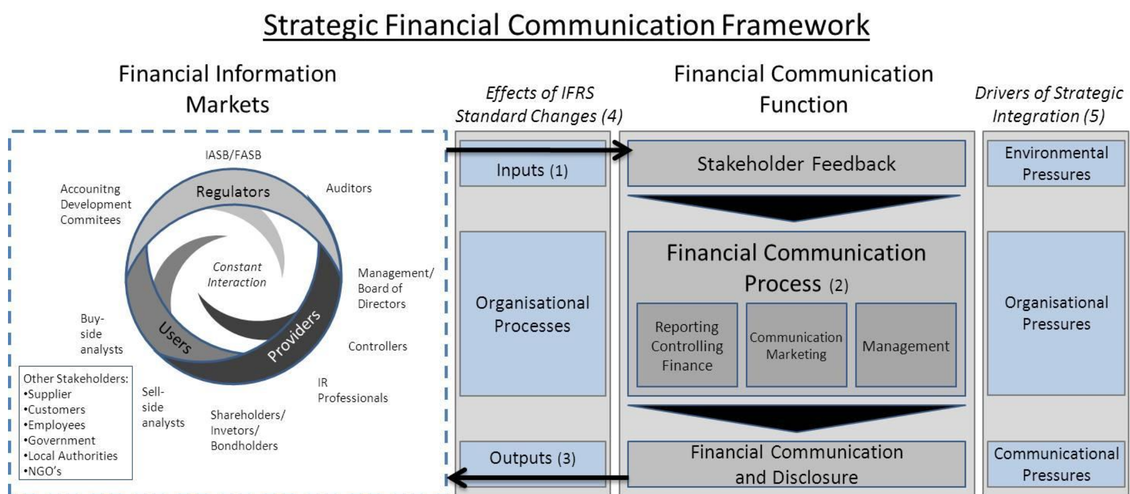

Figure 5. The Effects of IFRS Standard Changes on the Financial Communication Function of a Company

IFRS standard changes (4) have the potential to affect the interaction of a company with the Financial Information Markets on three fronts. IFRS changes affect inputs by changing what information available to users, thus affecting their actions. IFRS changes affect the process of Financial Communication by changing reporting requirements. The effects on the inputs and the process of Financial Communication will inevitably also affect its disclosure of a company and thus, the outputs of Financial Communication.

The Theoretical Framework also identifies three drivers of strategic integration (5) of a company's Financial Communication functions, as defined by Cornelissen (2008, see also Hallahan et al., 2007) in section 2.2.1 (Integrated Communication). These drivers emerge from the changing role of Financial Communication and are emphasized by the

IFRS 17 Leases Standard Change. Firstly, the environmental pressures of changing market conditions and regulations affect companies through the inputs of the Financial Communication function. Secondly, the organizational pressures affect through the process of financial reporting and communication becoming increasingly complex. Thirdly, the communicational pressures on the Financial Communication function affect through the challenge of a widening array of stakeholders and maintaining a consistent message through various media.

According to Cornelissen (2008), a communication strategy is built around the desired perception of the company among its stakeholders. Integrated communication "…recognizes the 'added value' of a comprehensive plan that […] combines these disciplines to provide clarity, consistency and maximum communication impact" (Cornelissen, 2008, p.20). His view of integrated communication emphasizes the interdependence of organizational processes and strategies as well as environmental conditions to determine the outcomes of the communication process.

To conclude, this chapter has presented the most essential theoretical underpinnings of the research in order to establish a basis for the empirical part of the study. These underpinnings are combined to create a Theoretical Framework, which establishes how a company interacts with the Financial Information Markets in a reciprocal manner. The Theoretical Framework also presents how IFRS standards influence this interaction and drive strategic integration. The Theoretical Framework conceptualizes the assumptions made in this thesis as well as to validate the research questions and the purpose of this research.

3 Data and Methods

The following chapter presents the principles of qualitative research, which is the chosen research method for this thesis, as well as presents the interviews and supporting data used. The chapter argues for the selection of qualitative research as the research method.

This study was conducted through qualitative methods in order to shed light on the effects of the IFRS 17 Leases standard change on Financial Communication. The IFRS 17 Leases standard change and its expected effects were addressed through personal discussion with key professionals involved in the Financial Information Markets and the Financial Communication Function presented in the Theoretical Framework. Hirsjärvi, Remes and Sajavaara (2002, p.155), argue that the primary objective of qualitative research is to depict real life. This is based on the assumption that reality is a complex structure that cannot be broken down to separate segments. Thus instead of examining subjects with narrow questions, it handles respondents and events as wholes. Qualitative research aims to give a holistic view on the relations that affect reality. Thus it can be argued that qualitative methods are the most beneficial choice for this study

Bryman and Bell (2003) argue that qualitative research seeks to uncover phenomena that it tries to understand and explain, with regards to the context as opposed to trying to find patterns that would be applied on a general level. These phenomena are socio-physiological constructs which form an interconnected entity and cannot be separated from each other, but only be understood as such and within the context in which they occur. Qualitative research methods are the most appropriate means as the standard change is a unique event that affects a socio-psychological construct, i.e. the Strategic Financial Communication Framework. This study helps understand this event from the point of view of Company X rather than try to find generalizations.

Qualitative research is distinguished by several characteristics. According to Hirsjärvi et al. (2002, p.152), a crucial aspect of qualitative methods is the selection of appropriate subjects as opposed to the use of random samples that characterize quantitative research

and the overall preference of using people as instruments of data gathering. As pointed out by Hirsjärvi et al. (2002, p.155), approaching interviewees on a personal level makes the gathered data richer as the researcher can record a large amount of unspoken information such as attitudes and emotions that would not manifest in questionnaires. The researcher is also able to adapt to varying situations and thus can make more thorough observations. This enables the researcher to react to emergent themes and discover unexpected nuances.

Hirsjärvi et al. (2002, p.155) note that to heed these delicate viewpoints and tones of the responses, qualitative research utilizes methods such as thematic interviews and participant observations. These types of studies are by nature more flexible and are subject to changes depending on the circumstances. The fundamental difference between qualitative and quantitative studies is that qualitative studies consider each event as unique and interprets it as such.

The first subchapter describes the data collection method. The second subchapter presents the interviewees that are used as the primary source of empirical data for this research. The third subchapter presents the supportive data and the fourth subchapter concludes by discussing the validity and reliability of the study.

3.1 Data Collection and Analysis

The choice of data collection is semi-structured interviews. The interviews were conducted with Financial Communication professionals, financial analysts as well as an auditor. These interviewees represent providers, users and regulators of financial information. As Financial Communication is a reciprocal process, it is crucial that the interviewees represent each party concerned with the IFRS 17 Leases standard change. The interviewees were selected according to their exposure to the IFRS 17 Leases standard change, experience, background and relationship with Company X.

The interviews were conducted face-to-face with six interviewees. All interviews were conducted in Finnish. The Financial Communication professionals were selected from

key Controlling and Financial Communication positions in Company X. The analysts were selected from the group of analysts following Company X. The auditor is selected from the auditing firm of Company X. The identities of the interviewees are concealed in order to protect Company X.

The average recorded interview lasted 30-45 min. A maximum length for the interview was set at approximately one hour. In addition to the actual recorded portion of the interview, some unrecorded small talk was included in the interviews to make the interview situation more relaxed and personal. A relaxed atmosphere was perceived by the author to encourage free conversation and make answers more candid thus enhancing the quality of the interviews.

The interviews revolve around the three main themes represented by the research questions derived from the Strategic Financial Communication Framework. The interviews consisted of 10 to 15 predetermined questions that were the same for each type of interviewee, i.e., the auditor had one set of questions (Appendix 1), the Financial Communication professionals had another set (Appendix 2) and the analysts had yet another set (Appendix 3). The most central questions relating to the IFRS 17 Leases standard change were the same for all interviewees, with the remaining questions being adapted to the interviewees' position. The semi-structured interviews encouraged free discussion and were not tied down by the questions, but rather steered by them, as per the principles of qualitative research pointed out by Eskola and Suoranta (1999, p.86).

The selection of this data collection method was beneficial since the expectations of the interviewees require some rather specific questions to be answered. However the discussion needed to be flexible enough to take the natural direction implied by the interaction between the interviewer and the interviewee. It was crucial for the study to have interviewees from a number of different backgrounds to get a broad understanding of the effects of the change. Thus it was important for the interview situation to be able to adapt to the background of the interviewee, to utilize each interviewee's expertise and experience in their respective field and to discuss the expectations of each different

viewpoint. Creating discussion between the interviewees' perceptions and experiences, and the author's findings and assumptions was a crucial aspect of the study.

The first set of interviews was conducted during the months of January and April of 2012, consisting of two Financial Communication professionals and the auditor. The second set was conducted during March 2013, consisting of three analysts, two of which are based in Helsinki and one in London. The interviews were conducted in two sets, due to the second Exposure Draft having been delayed several times. The first set of interviews (Appendices 1 and 2) focused on research questions 2 and 3 in order to establish an understanding of the Financial Communication process and disclosure of company X as well as their expectations, perceptions and lead-up to the change. The second set (Appendix 3) concentrated more on the first research question and the users of financial information. The reason for conducting the interviews in the beginning of the year was once was again accessibility to key professionals. In the months prior to the release of financial reports, analysts, controllers and Financial Communication professionals are extremely busy and not very keen on undertaking extra assignments. Analysts needed to be interviewed close enough to the publication of the second exposure draft, in order for them to have started preparing for the standard change and its expected effects on their financial modelling. The key focus here was to ensure that the interviewees bring insight to the study of the IFRS 17 Leases standard change.

In qualitative research the process of data analysis is considered to start already when data collection starts and to carry on throughout the research process (Marshall & Rossman, 1999). The interviews were audio- recorded to ensure no details would be lost. The audio files were tagged and archived based on the date and order number of the interview. Once collected the data was translated by the author and prepared for analysis by transcribing it within a week of the data collection.

As transcribing interviews is extremely time consuming only the parts that are directly related to the research questions were translated and transcribed. As the research topic is very technical, the interviews contained some sections of rather specific discussion on the details of the upcoming standard. The researcher used his judgment to omit these

parts from the transcriptions, in case they did not seem to contribute to the research purpose. The recordings were available for revision after the transcription in case these sections would be later found to add value to the research. The collected data was cleaned of any transcription errors and typos.

Once cleaned, the data was analyzed by first reviewing the transcriptions and comparing them to the audio-recordings in order to reflect on the interviews, find regularities in the data and understand the position of the interviewees with respect to the main research problem. Emphasis was set on reoccurring themes and viewpoints across different interviewees. These themes were also cross checked with supporting data to see whether the interview data and supporting data converge on fundamental themes.

The next step was to dissect the data into units in order to manage the volume of the collected data. These units were first categorized based on the research questions and then further divided into subcategories. The categorization of the data was allowed to adapt and shift as the data analysis process went on to reflect any emerging insight.

As Silverman (1993) points out, in qualitative research there often is no initial hypothesis but hypotheses develop during the early stages of the research. These hypotheses are tested and developed throughout the data analysis process. The researcher has adopted a deductive approach to qualitative analysis. Existing theory was used to create a Theoretical Framework which contributed to developing hypotheses and shaping data collection. To complement hypothesis testing, the research approach utilizes the methods of an explanatory case study, as the research seeks to explain the assumed effects of IFRS changes on the Financial Communication of Company X.

3.2 Interviewees

The interviewees were selected to provide a wide range of expertise both inside and outside Company X as well as experience from different geographical areas, different accounting standards and different size companies. Also varying educational backgrounds were valued, although the majority of interviewees would naturally have a

strong focus Finance and Accounting. Nevertheless, each interviewee was selected to bring a unique perspective to the study. Each interviewee is referred to as "Interviewee #", where # represents the order number of the interviewee. Below (Table 3) is a summary of the interviewees and the reason for their selection for the study.

Table 3. Summary of the Interviewee's Positions, Relationship with Company X and Reason for Selection.

Interviewee number	Position	Reason for Selection
Interviewee 1	Authorized Public Accountant and Senior Manager at the auditing firm of Company X.	Extensive experience in accounting changes and advisory
Interviewee 2	Investor Relations Director at Company X	Central role in Company X's Financial Communication
Interviewee 3	Director, Corporate Controller at Company X	Central role in implementing IFRS changes at Company X
Interviewee 4*	Equity Analyst at a leading global provider of financial services based in London	Experience specifically relating to IFRS 17 as well as international perspective
Interviewee 5*	Head of Research at a Finnish provider of investment services based in Helsinki	Extensive experience in equity analysis and business development
Interviewee 6*	Head of Equity Research at a leading Nordic financial services provider based in Helsinki	Extensive experience in equity research from a number of financial services providers
*Interviewees 4, 5 and 6 are all external analysts following Company X		

Interviewee 1 is an Authorized Public Accountant and a Senior Manager currently working in Accounting Advisory Services at the auditor of Company X. He has experience in Valuation Advisory, and specializes in complex financial reporting under IFRS and US GAAP, with focus on business combinations, carve-outs, purchase price allocations (PPA), accounting framework conversions and revenue recognition. He graduated as a M.Sc. (econ) from the Helsinki School of Economics in 2002 with a major in Accounting and minors in International Business and Business Law. The first interview was conducted on the 27th of January 2012

Interviewee 2 is the Investor Relations Director at Company X. Interviewee 2 has a Master's degree in Law from the University of Helsinki and Master of Laws (LLM) from King's College in London. Interviewee 2 has over 8 years legal experience from a

number of positions as well as 3 years' experience in Investor Relations. The second interview was conducted on the 19th of March 2012.

Interviewee 3 is the Corporate Controller at Company X since 2009, and is responsible for the financial reporting and controlling of the Group, both in terms of management accounting and financial accounting. Interviewee 3 graduated in 2003 as a M.Sc. (econ) from the Vaasa University, majoring in Accounting and Finance, and has experience from Company X both in Group reporting as well as Business Controlling. He is also a member of the Financial Steering Group of Company X. The third interview was conducted on the 3rd of April 2012.

Interviewee 4 is an Equity Analyst based in London at a leading global provider of financial services. Interviewee 4 is a graduated M.Sc. (econ) from a leading Business School in Europe, with extensive experience in Accounting and Finance and a completed degree in International Management. Interviewee 4 also has previous experience in leasing valuation. The fourth interview was conducted on the 16th of March 2013.

Interviewee 5 is the Head of Research at a Finnish private bank based in Helsinki that offers a wide range of investment, savings, and asset management services to private investors, companies and institutional investors. Her educational background is in industrial engineering with a minor in geomatics. She has extensive experience in equity analysis and corporate finance as well as business development. The fifth interview was conducted on the 19th of March 2013.

Interviewee 6 is the Head of Equity Research at the Markets division of a leading Nordic banking conglomerate. Interviewee 6 graduated from the Helsinki School of Economics with a M.Sc. (econ) in Finance and Accounting in 1995. He has over 15 years' experience in equity analysis from a number of Nordic banks. The Sixth interview was conducted on the 20th of March 2013.

3.3 Supporting Data

The collection of supporting data is vital to the study in order to obtain a wider perspective on the IFRS 17 Leases standard change and to uncover issues that the interviews might fail to address. The supporting data also works as a guide for the interviews, giving the interviewer some insight to the possible answers of the interviewees and thus helps steer the conversation into the desired direction. Supporting data is collected from articles, press releases, presentations and other publications to support the interviews and gain further insight on the subject. Also members of the academia are used for supporting findings and addressing key issues.

Three main pieces of supporting data were used along with other publications. The first is a letter written by the Corporate Reporting Users' Forum (CRUF) as a response to the original exposure Draft was used as supporting data. The letter addresses many of the same concerns as were expressed by analysts. Additionally, a speech by the Chairman of the IASB Hans Hoogervorst held at the London School of Economics on the 6th of November 2012 was used as supporting data. The speech discussed globalization and the economic consequences of accounting harmonization. Finally, a presentation held on the 7th of October 2008 by the former Vice President of Investor Relations of Company X on the role of global investor relations was used.

According to Hirsjärvi et al. (2002, p.193) it is important to gather supporting data to underpin the interviews and to present valuable additional information to strengthen the validity and reliability of this study. The validity and reliability of the study is discussed in the following subchapter.

3.4 Validity and Reliability

The analysis of both the reliability and the validity are essential to any research in order to determine its scientific value. Hirsjärvi et al. (2002, p.213) argue that the reliability of a study refers to the extent to which the study can be duplicated whereas the validity of a study addresses whether the study measures what it is intended to measure.

According to Hirsjärvi et al. (2002, p.214), the definitions of reliability and validity of a study were originally created for quantitative research, and as such cannot be directly applied to qualitative research. Thus, these concepts have had varying definitions in the realm of qualitative research. The principal reason for this is the notion that any study concerning people and social events are always unique and as such cannot be duplicated with the same results. Nevertheless, the validity and reliability of qualitative researches is just as important as for quantitative researches and should be similarly argued to the reader through the rationalisation of the selection of study methods, the selection of interviewees and the conclusions.

The selection of 6 interviewees is seen by the author to be sufficient due to the nature of the interviews, their scope and the availability of supporting data. The interviewee selection is based on the following principles. Firstly, accessibility; for the reliability of the study, it is imperative to gather a sufficient number of interviews in order to study the change thoroughly. Thus it is crucial to select such interviewees that are willing and able to contribute to the study. Secondly, it is vital that the interviewees have an in-depth enough knowledge on the change and are able to critically discuss its expected effects on Financial Communication.

A key factor for ensuring candid responses was ensuring anonymity for the interviewees. It was made clear to the interviewees already when requested to participate in the study. The interviewees were also briefly introduced to some of the themes that would be discussed. The interviewer emphasised that the responses should be based on the interviewee's personal experiences and perceptions rather than the official position of the company they represent. If the interviewees were uncomfortable with answering a given question, they were free to say so and the question would then remain unanswered. All interviews were recorded with the permission of the interviewee and solely for the author's personal use.

The reliability of the study was strengthened by supporting data from several studies, web casts, and other publications by the IFRS foundation and some of the leading international auditing firms. This was important for two reasons. Firstly, to make sure

vital issues were not overlooked by the interviews. Secondly, it served as controlling information to make sure the interviewees were qualified and informed enough to give reliable arguments. Had the results from the interviews been significantly different from the supporting data, it could be argued that the interviewees were not suitable for the study. However, the interviews did address the same issues as the supporting data but additionally presented valuable insight to the true nature of the change as well as the specific viewpoint of the Company X.

The results were analysed according to what emphasis the discussion between the interviewer and interviewees put on each of the themes of the interview, as each interviewee had a tailored set of interview questions. However, since the interviewees were chosen from different stakeholders in the capital markets, it is assumed that most vital issues would be of concern to all stakeholders. Thus, major issues are such that arise continuously from interview to interview whereas minor issues are such that are specific to a certain role.

The conclusions made on the expected effects of the IFRS 17 Leases standard change were cross-referenced with the literature review and supporting data. This was done to evaluate whether the results of this study are reliable. Despite being naturally more in-depth, the conclusions made in this study are clearly in-line with the interviewees view on the crucial issues of the IFRS 17 Leases standard change.

The main research problem is answered in the conclusions of this study. The author perceives the results of this study as valid and reliable. The study is conducted thoroughly and the amount of data collected is sufficient. The interviews were productive and address the key issues. The study utilized a sufficient amount of relevant literature that is applicable to the IFRS 17 Leases standard change and Company X.

4 Findings

The following chapter presents the findings of the empirical research conducted for this study. The findings of the interviews were mirrored against supporting data gathered from various sources. This chapter is divided into three subchapters according to the research questions. These research questions aim to answer the main research question, which is:

- What are the expected effects of the IFRS 17 Leases standard change on the Financial Communication function of Company X?

The first subchapter addresses Financial Communication from the point of view of the users of financial information in order to establish a basis for the expected effects of the changing lease accounting on the stakeholders of Company X's Financial Communication. The emphasis is on the "inputs" from the Financial Information Markets as presented in subchapter 2.3 (Theoretical Framework). Understanding these inputs require understanding the users' decision making process and perceptions, the nature of feedback from the investor community and other stakeholders, as well as the interpretation of accounting regulations and accounting principles. The expected effects of the IFRS 17 Leases standard change were substantiated with effects of other reporting changes and the interviewees' experiences. The first subchapter answers the question:

1. How is the changing treatment of leases under IFRS 17 expected to affect users of financial information?

The second subchapter focuses on the Financial Communication process presented in the Theoretical Framework in subchapter 2.3. This subchapter discusses what kind of increased information needs and disclosure requirements Company X's Financial Communication process will need to consider. The findings are divided into the effects of the change on implementation, collaboration and administration. In order to postulate the expected effects of the IFRS 17 Leases standard change, the findings also touched

upon other IFRS changes as well as the initial IFRS adoption in 2005. The second subchapter answers the question:

2. How are the increasing requirements of the IFRS 17 Leases standard expected to affect Company X's Financial Communication process?

The third subchapter concentrates on the message and "output" of company X as presented in the Theoretical Framework in subchapter 2.3, in terms of Financial Communication and disclosure. This subchapter is divided into sections that address the changes in qualitative information and management estimates, disclosure as well as the interpretation of standards and accounting principles. This subchapter provides a point of comparison to the first research question in order to better understand the possible gap between communicator and stakeholder. The third subchapter answers the question:

3. How is the IFRS 17 Leases standard change expected to affect company X's Financial Communication outputs and disclosure?

This division of research questions into the inputs, the process and the outputs of Financial Communication is adapted from Cornelissen's (2008) integrated communication framework. As discussed in subchapter 2.2.1 (Integrated Communication), Financial Communication is inherently a cross-disciplinary communication function which is susceptible to three types of drivers of integration; market- and environment-based drivers (inputs), organization-based drivers (process) and communication-based drivers (outputs).

4.1 Effects of IFRS 17 Leases on Users of Information

The following subchapter presents the findings relating to the first research question, which focuses on the environmental pressures and feedback from capital markets that are sparked by IFRS standard changes in general and specifically by the IFRS 17 Leases standard. The subchapter is divided into three sections which address the information

acquisition and decision making process of users, communication between Company X and the Financial Information Markets, as well as scrutiny of financial reporting.

The most significant findings of the research relating to the valuation of Company X were that analysts use a range of methods for valuing Company X, each of which faced considerable challenges due to the particular nature of Company X, in terms of size, location, growth prospects and pricing multiples. The profitability and sustainability of organic growth were key drivers of the share price and were heavily influenced by the analysts' own perceptions due to the above mentioned challenges. This phenomenon emphasized the role of Financial Communication as opposed to simple reporting. Financial Communication was found to have a central role in conveying the company's investment story, as well as risks, strategy and future outlook.

Communication between company X and the capital markets was rather unstructured at times which may have contributed to the fact that analysts were not always aware of the changes occurring in company X's Financial Communication. These changes were mostly addressed on an ad hoc basis which leaves the Financial Communication outcomes susceptible to miscues.

The scrutiny of financial statements that stakeholders engage in differs considerably, which contributes to the varying levels of awareness of Company X's disclosure. These differences have a considerable impact on communicating with stakeholders as their pre-existing knowledge and information needs differ. However, as Financial Communication cannot be tailored to each stakeholder separately, the challenge of simultaneously fulfilling each stakeholder's information needs is considerable.

The following section presents the information acquisition and valuation process of the users of financial information, followed by a section on the communication between Company X and the capital markets, and a section on the scrutiny of financial statements of Company X.

4.1.1 Information Acquisition and the Valuation Process of Users

The present section addresses how analysts as users of financial information value Company X, and how they acquire the information they use. Special focus is set on the users perception of profitability, growth and adjustments.

The information acquisition process of analysts was found to start with following the news flow of Company X. Several sources of macroeconomic data were used to determine future growth rates, market share and profitability. Developments in different segments were crucial to establish how well growth opportunities can be utilized and how these developments will affect the product portfolio. Analysts modeled growth on a number of indicators such as industrial production and other data by different bureaus of statistics. Similarly, in order to establish profitability analysts closely follow production costs and material prices.

Although the sources of data were rather similar for all analysts, the methods they use to derive a valuation from them were rather varied. The usual valuation methods such as Discounted Cash Flows (DCF), Dividend Discount Model (DDM), as well as comparables including EV/EBIT, EV/EBITDA, EV/Sales, P/E, Price-to-Book were all used in different forms. However, while some analysts relied mainly on DCF, others did not use it at all. The latter on the other hand based their modeling almost solely on comparables analysis.

Many of these models were found to face challenges in the case of Company X. On one hand, a DCF model tended to overvalue the share price even with reasonable estimates. Although this is a common trait of the DCF analysis, it was considerably accentuated in the case of Company X. On the other hand, finding appropriate comparable companies is difficult due to Company X's industry, size, geographical location and outlook.

Analysts as users of financial information agreed that the two most important drivers of the share price in their modeling were growth and profitability. Despite differences in methods, the foundations of both growth and profitability were established quite

thoroughly. In order to forecast growth the clear focus of the required information was on macroeconomic and demographic indicators. The ultimate aim was to establish how sustainable the current and future rate of growth is. The accounting side was of clearly lesser importance in determining the future state of the company.

Nevertheless when forecasting profitability the starting point was often the company's current level of profitability as communicated by Company X. The development of the profitability was then modeled to ascertain a future state. In order to establish an accurate level of the company's current profitability, analysts performed adjustments in order to clean up any one-off costs and non-recurring profits. Interviewee 6 elaborated on the adjustments that analysts made in their valuation as follows:

> *"We try to clean out everything that distorts the EBIT making it incomparable with other companies. Usually restructuring costs like severance packages paid [are removed] because these are mostly one-off items, or if a company has made acquisitions and there are amortizations of intangible assets." (I6)*

Users of financial information were found to perform a number of adjustments in order to understand the true profitability of Company X. These adjustments included most one-off costs which were not part of the company's normal operations, effects of exchange rate differences as well as charges relating to mergers such as Purchase Price Allocations (PPA). In order for analysts to be able to accurately make the appropriate adjustments these items need to be adequately disclosed by Company X.

In some industries, such as airlines or retail, leases are adjusted for as they represent such a large part of the companies' liabilities. According to the Chairman of the IASB Hans Hoogervorst, leases often contain a clear element of financing, which is not recognized on the balance sheet. Similarly, the counter parts of lease contracts are often financial institutions such as banks or their subsidiaries. Most analysts use a rule of thumb to estimate the effect of off-balance sheet lease liabilities, which is considered to hide the true extent of a company's leverage ratio.

Both in terms of growth and profitability, the analysts strived to find the organic growth rate and profitability that was not driven by acquisitions or non-recurring gains, but the actual growth and profitability of the different parts of the business. It should be emphasized that the notion of organic growth is not an official measure of growth but rather represented each individual analyst's interpretation of the fundamental drivers of the share value. Thus for these interpretations to have informational value, it was found to be crucial to have comparable data from previous periods.

By nature, valuation requires continuity in Financial Communication and reporting in order for it to function. The study revealed that analysts will go to great lengths to produce comparable figures, whatever the reason causing the incomparability is. Adjustments were made for mergers, takeovers, exchange rate effects, one off gains and losses and accounting changes, to mention a few. The takeaway from this necessity was the fact that if a company did not disclose certain metrics or elaborate enough on their statements, analysts were forced to use rough estimates in orders to compensate for the lack of accurate data. One could say that if continuity was not provided, it was created. Analysts will most likely always want to know more, no matter how much is disclosed, but this finding should urge the management to seriously consider the stakeholders information requirements in terms of pivotal information. After all, the steadier the share price is, the more attractive the share is to investors.

In order to better understand the drivers of share value, analysts have had a tendency to undertake more thorough reports on specific parts of Company X's business or phenomena affecting it. In these situations the analysts have contacted the Financial Communication Department for further details. Usually the response has been positive and the Company X has been happy to help with most queries, as well as has been most often interested in seeing the end result.

Despite its endeavor to support analysts work, Company X has refrained from disclosing certain information that analysts would find useful. Such information included the individual profitability of the different business lines within Company X, as well as the profitability of individual countries. Apart from this, the Financial

Communication of Company X was considered to be of a high level among all the analysts that participated in the research. Company X's communication was generally very interactive and analysts could be rather certain to be getting accurate information.

4.1.2 Communication between the Capital Markets and Company X

The following section discusses the communication and interaction between Company X and its capital market stakeholder, and how they could be improved. The also section discusses in detail how users of financial information give feedback to Company X.

Financial communication is largely concerned with minimizing information asymmetry which means that feedback from the Financial Information Markets is essential for functioning Financial Communication. Interviewee 2 described the nature of this feedback and how it is encouraged.

> *"The investor community is rather active in giving feedback, and often do say if they are unhappy with something. On road shows, the broker bank that took us there gathers feedback anonymously so it's even easier for them (investors) to tell if something is wrong." (I2)*

Feedback was found to be received from several stakeholders in different forms. There are different kinds of rankings and surveys, which evaluate companies based on several aspects, such as CEO and CFO presentations and how they convey their message. Several different organizations maintain rankings, such as the Institutional Investor Magazine (www.institutionalinvestor.com), Extel Thomson Reuter (www.extelsurveys.com) and the IR Magazine (www.irmagazine.com). In addition to these rankings there is Regis which is a company that benchmark's the companies that wish to take part in its ranking. Regis has established a significant position in the markets and their ranking includes a large amount of Nordic companies.

Most communication between analysts and the Investor Relations Director of Company X happened by phone. Each analyst stated being in contact with Company X on average

once a month depending on how eventful each month has been. Nevertheless, the absolute minimum frequency was once a quarter. In addition to phone calls, the most important events were road shows which occur after results are published, as well as different kind of luncheons and the Capital Markets Day. These were found to be usually useful as analysts met other analysts and they could ask questions together and scrutinize the company in a comprehensive manner.

Phone calls between the company and analysts did not follow any kind of clear structure but focused mostly on any information that had not been communicated or had remained unclear. Interviewee 4 shed light on the contents of a typical phone conversation in detail.

> *"We discuss market segmentation, latest orders, have there been any changes [...] and how the order pipeline is developing. Or if there are larger items, like one-offs, restructuring costs or large dividends. We are mostly interested in changes, and getting transparency on the figures of the next quarter, pricing and material prices." (I4)*

Some details were only disclosed in the conference calls which occur after the publication of financial statements and quarterly reports. Most analysts agree that overall, they did get the information they needed and that they always got clarification when they needed it, however within the limits of Company X's rather strict disclosure policy.

Analysts as users of information were heavily reliant on the communication with the company for up-to-date information, as they did not follow other analysts work. Reuters does provide each analyst with extensive market data, information on what other analysts' recommendations as well as consensus information on share price, EBIT and EBITDA but from the analysts interviewed, none actually used other analysts work or paid for external reports to help with their own valuation process. Some were even forbidden by company policy to use other analysts' work.

An issue that arose in the findings relating to the fact that the analysts were very reliant on Company X's Financial Communication efforts is that the analysts are following a rather large number of companies, which made it difficult to stay on top of all events concerning each company. Information regarding Company X was very well provided when it was requested but many things also tended to go unnoticed. This created a misalignment with the Financial Communication department's expectation and the analysts' knowledge of certain issues. Often times the Company X might think that everyone was aware of an issue that they are currently dealing with while analysts were oblivious to it. Such issues included accounting changes among other things, since sometimes there could be an overwhelming amount of changes and occurrences that the analysts needed to keep up with.

Findings showed that a more structured approach to communicating with analysts would help analysts stay on top of the various events and changes that are happening in the accounting world. A more structured approach may also help with leveraging the developing role of Financial Communication. As pointed out by the providers of financial information, many of the upcoming accounting changes including IFRS 17 Leases have not yet been addressed due to more pressing issues. This may create a situation where these changes are not being communicated about to the capital markets. Analysts were often overwhelmed by the sheer amounts of data and market events that they did not have time to actively address accounting standards. Both the providers of information and the users of information relied on the other party to bring up any topic that they may deem significant.

Whilst not leveraging each other's analysis, equity analysts did leverage other analysts' and investors' understanding and scrutiny of Company X. This aspect emerged a few times in the findings as analysts described how conference calls and investor meetings provided an opportunity to go through certain data together in a more interactive manner. Furthermore, some larger international investors were found to actively approach several analysts simultaneously asking to provide some detailed information

which has previously been overlooked. Such situations prompted further scrutiny and communication between Company X and its stakeholders.

Capital markets occasionally asked for further numerical data, but more often qualitative data, as that they wished to understand something better, or wished for something to be explained further. Analysts reportedly asked to elaborate more on information, especially on certain specific pieces of information. Interviewee 2 discussed these requests from the point of view of Company X.

> *"We are continuously asked why we do not disclose the profitability figures for our different businesses. We are not going to do this since in this industry, nobody else does it either. It's understandable that investors give feedback on it. We know this but can't really do anything about it." (I2)*

Some feedback from investors was immediately identified as true. However, the criticized issues might have been difficult to address for one reason or another, such as resources or management policies. However, Company X's Financial Communication function assesses such issues "self critically" together with the management, reviewing the suggestions and considering the things that could be done better.

Based on the communication theory presented in the literature review, any situation where a misunderstanding or lack of information is present, the responsibility to act lies on the providers of information, i.e. Company X. More specifically, it would be Company X's responsibility to raise the awareness of its stakeholders in terms of what is happening and what questions they should be asking to make sure that they possess an adequate understanding of Company X. Simply providing information and responding to queries is not sufficient Financial Communication. Company X would benefit from anticipating information needs and proactively educating their stakeholders.

The findings show that proactive Financial Communication such as setting up a regular publication could assist analysts and other users of information stay informed of the

crucial issues of Financial Communication. Such a publication would include a summary of the main events affecting the Financial Communication and reporting in each quarter. Implementing such a publication in Company X could help its stakeholders better understand and prepare for changes such as the IFRS 17 Leases standard change.

4.1.3 Scrutiny of Financial Statements

The present chapter addresses the differences between the scrutiny of Company X's Financial Communication and reporting by different stakeholders, as well as the different expectations of these stakeholders regarding the IFRS 17 Leases standard change.

In terms of scrutinizing Company X's financial statements, the findings from different interviews were quite mixed. Analysts as users of information paid great attention to the disclosure of Company X relating to the perceived drivers of organic growth and profitability. However, very little effort was put into controlling for the quality of reporting by the analysts that were interviewed. Mostly the argument for this was that the analysts simply did not have the time or the means to start scrutinizing the companies' quality of reporting or the principle upon which the statements were compiled. The quality of reporting was generally taken as a given.

This assumption made by analysts on the quality of reporting represented a strong contrast to the point of view of the auditor whose background is in accounting advisory. The findings from the auditor interview emphasized the importance of checking the principles on which financial statements are prepared. Analysts on the other hand had a more practical approach and were concerned with any changes that had occurred between one period and another. This difference in viewpoint stems from the analysts searching for their interpretation of organic growth and profitability rather than some absolute truth. Several analysts emphasized that valuation is not an exact science but rather represents the analysts' opinions and perceptions of the fair value of a company.

Furthermore, the findings showed that a lack of scrutiny in terms of the accounting principles does not entail that analysts would not be concerned with its truthfulness, but rather that their priorities are different. Notes are scrutinized very thoroughly in order to uncover any attempts to mislead or conceal certain expenses or the source of certain revenue. Interviewee 5 pointed out that such attempts have happened in the past.

> *"[...] Sometimes companies try to hide some one-offs into their numbers, which are then (later) mentioned somewhere in the notes, which is senseless. So these things we do notice, and it creates mistrust." (I5)*

Thus, if reporting is clearly below standard it is noticed and often fed back to the company. In extreme cases action is taken through regulatory authorities if a company clearly neglects its responsibilities.

As a result of the upcoming IFRS 17 Leases standard change, scrutiny is expected to become increasingly difficult and time consuming. As the standard affects company X, its competitors and its comparables simultaneously, analysts have to establish the effects of the change on each company separately. This means scrutinizing third parties' financial statements with a similar thoroughness as the statements of company X in order to understand the amount of significant capital items distorting profitability.

Whether the IFRS 17 standard change will have an effect on the valuation of a company is hard to tell, as theory and practice do not always agree. However, based on the findings and supporting data used in this research, it is most likely that the IFRS 17 Leases standard in its final form will have an effect on the work of equity analysts and their valuation process. Such effects may include among others, multiples, covenants, credit ratings, profitability, gearing and other capital ratios as well as taxes and tax shields. Thus it is substantiated that Company X would benefit from enhancing the understanding and awareness of the investor and analyst community in relation to the ongoing leasing standard change.

In some past IFRS changes, such as the IAS 19 Employee Benefits standard change, some analysts have undertaken research on an example company in each industry with transparent reporting in order to establish the effects of the change on the example and then infer the effects on other companies in the same industry.

Certain analysts saw a problem with this method in the case of the IFRS 17 Leases standard change. Depending on companies' leasing strategies, one might favor longer leases whereas another might favor shorter ones. In this case the effects of the leasing standard change would be quite different in terms of the amount capitalized on the balance sheet, as well as its effects on profitability. Especially if disclosure is not sufficient across the board, analysts foresaw a situation where adjustments would be made to negate the effects of the change to uncover the financials as they would stand without the change. This situation is hardly desirable considering the driving motives of harmonizing reporting and increasing transparency. The IFRS is constantly developed specifically to make comparisons easier for analysts, investors, owners and other stakeholders. Interviewee 1 elaborated on how IFRS standards address transparency and the usability of information.

> *"The quality of financial reporting and notes is emphasized, in order to get the relevant information that you might need, for example for cash flow analyses. […] IFRS has very comprehensive requirements regarding notes which increase transparency in the figures." (I1)*

Findings showed that it is essential for the users of financial information to understand the information that is conveyed, in order to know what sort of adjustments need to be made to KPI's and subtotals. The more is elaborated in reporting, the better it is for the one analyzing the result, both in terms of figures as well as narratives. As a result of the IFRS 17 Leases standard change, the amount of notes is expected to increase, especially relating to the Balance Sheet and Income Statement. A large debt and corresponding asset would significantly affect KPI's and debt covenants. Additionally EBITDA and financial expenses are expected to be affected as a result of certain lease expenses becoming interest expenses and amortizations.

The CRUF was particularly concerned with the fact that the front end loaded leasing charges, where more interest is paid in the beginning of the period, will cause a mismatch between cash costs and income statement expenses. Front loading may also distort reality as the interest charges of different length leases may be considerably different and thus incomparable. Some managers may be tempted to deliberately impact profitability through lease contracts. Appropriate disclosure is pivotal for distinguishing cash and non-cash charges as well as interest and amortization components of lease payments.

A concern raised by the findings of this study was the clear misalignment of expectations relating to the standard change and its effects on Financial Communication and valuation. On one hand the accounting community has expressed considerable preoccupations over the original IFRS 17 Leases exposure draft causing the IFRS foundation to publish a revised exposure draft and thus delay the implementation of the new standard by several years. The standard change proposal had widely been revered as a radical change to the treatment of leases. On the other hand, many analysts were rather uninformed about the change and consider it being secondary in importance as it was not expected to change the cash flows of a company, and thus in theory should not affect valuation. Whether this is true in practice may be hard to establish. It can be assumed however that the underlying reasons for the accounting community's outcry would hardly be a simple question of accounting technicalities. Such a significant change on the preparation of financial statements would most likely have at least some kind of carryover effect on the users these statements as well.

This subchapter presented the "inputs" from the users of financial information in the capital markets as addressed by the first research question. The subchapter shed light on the valuation process, methods and perceptions of users of information in order for Company X to better understand and address their information needs. The subchapter also unveiled some of the ways that Financial Information Markets use to acquire and scrutinize financial information to understand possible shortcomings of the communication between Company X and its stakeholders.

4.2 Effects of IFRS 17 Leases on the Financial Communication Process

The following subchapter presents the findings relating to the second research question which addresses company X's Financial Communication process, and the expected effects of the IFRS 17 Leases standard on it.

The most significant findings relating to the implementation of the IFRS 17 Leases standard showed that due to the change in the scope and treatment of leases, a reconciliation bridge will need to be implemented, along with a Financial Communication strategy that supports it. This is crucial in order to maintain continuity. The study revealed that in order to value shares, equity analysts go through great lengths to acquire the information they need. If this information is not directly provided, analysts look for ways to emulate the information. In terms of the accuracy of valuation, providing continuity can be assumed to be more beneficial than forcing analysts to recreate continuity.

In terms of collaboration, the changing IFRS 17 Leases standard is likely to fundamentally affect the processes and guidelines of lease accounting in Company X. These effects span across departments, such as reporting, treasury, taxes, investor relations and mergers and acquisitions. The change is also likely to cause challenges in formulating lease agreements due to increased disclosure requirements.

The administrative burden of managing lease contracts according to the new lease accounting requirements were found to likely increase the costs related to reporting. Adhering to the new standard may require updating several IT systems related to resource management and accounting.

The following section presents the challenges regarding the implementation of the IFRS 17 Leases standard, followed by a section on collaboration between departments in the Financial Communication process, and a section on the administration of lease contracts.

4.2.1 Implementation of IFRS Changes

The present section discusses the practical challenges associated with the implementation of the IFRS 17 Leases standard change. These challenges are discussed in light of past IFRS changes as well the measure that can be taken to mitigate these challenges.

The prevailing disposition among analysts and Company X was that the next step regarding the implementation of the IFRS 17 Leases standard change is to wait and see what the final standard looks like, and get an idea of the transition period. So far, only the extent of the change and the way with which to approach it, have been touched upon by both parties. The practical steps will be decided once the final standard is out, and the transition schedule is published.

The findings revealed that there are two different kinds of changes related to IFRS regulations. There are the ones that affect the continuity of disclosure, which are relatively easy to tackle. Then there are the ones that affect performance and thus shareholders' equity. With the latter type of changes a company needs to consider how significant the change is making pro-forma figures and adjustments based on IFRS on previous years. The current IFRS 17 Leases standard change is expected to significantly affect the performance figures of companies with large amounts of off balance sheet leases, and thus undoubtedly belongs to the latter type.

More likely than not, a reconciliation bridge will need to be established during the conversion to the new IFRS 17 Leases standard, as was done in the initial adoption of the IFRS in 2005, when considerable changes to accounting principles were implemented. A reconciliation bridge is put in place over a period of time to compare the pre-change figures to the post-change figures in order to understand the extent of the accounting change. It is crucial to evaluate the significance of a change in order to adequately prepare for it. The IFRS changes that have occurred so far have not been deemed significant enough for Company X to require bridging. The reconciliation bridge will need to be incorporated in the overall Financial Communication strategy and

disclosure policy in order to achieve the desired results. The below quote from Interviewee 3 depicts the special nature of the IFRS 17 Leases standard change, compared to previous changes.

> *"[...] We will need at least one year of comparable figures. Now we have had a period of rather comparable figures, so there might be a dent in that in terms of profits. We've had some (standard change) effects but this will be a 'step change'." (I3)*

Findings showed that a fundamental principle of corporate reporting is the 'going concern'. The Balance Sheet continues where it left off the previous year, with accounting principles remaining the same unless considerable changes occur. This entails that not only the interpretation of accounting standards remain the same, but also the approach to estimates and provisions must stay consistent. It is the continuity of reporting along with the consistency of Financial Communication that allow for users of financial information to understand the company's financial position, performance and efficiency. Companies need to constantly follow ongoing changes in accounting standards as they may affect the company's reporting. Auditing firms on their part proactively communicate about any changes to their clients and reflect on the changes with the client companies' management, evaluating what sort of effects the changes might have, so that they can prepare for the changes early enough.

Company X had done little preparation for the upcoming IFRS 17 Leases standard as of yet, as there have still been more pressing issues such as changes to IFRS 3 Business Combinations and IAS 19 Employee Benefits. However, Company X was concerned about the impact that the IFRS 17 Leases standard change will have in terms of how much a company needs to disclose on their leases and how the standard change will affect the decision to buy or lease. A situation may arise where 'the tail wags the dog' to a certain extent as business decisions are dictated by accounting standards. Another clear concern is whether Company X would be considerably more affected by the standard change than its peers.

According to the findings, there is a multitude of changes involved in the adoption of a new IFRS 17 Leases standard. Firstly, the scope of leasing is changing in terms of what needs to be booked on the Balance Sheet, which will have a significant effect on Company X's financial statements and Financial Communication. Secondly, another significant issue is that the change requires companies to make several estimations related to the value of the leases and how long these leases should be accounted for. It is a key component concerning continuity, that these estimates are approached consistently. Thirdly, the IFRS 17 Leases standard specifically requires a lot of practical reporting work, so that companies can satisfy the qualitative and quantitative disclosure demands of the standard.

The capitalization of lease assets and liabilities as well as the increased disclosure regarding leased assets, risks and liabilities are considered beneficial to the reporting of leases by the CRUF. However, the CRUF also pointed out the risks related to the new disclosure requirements. Without adequate and high quality regulation and communication the changing disclosure requirements risk creating new sources of uncertainty.

4.2.2 Collaboration in the Financial Communication Process

The following section presents the collaborative process that is Company X's Financial Communication process. This section also discusses how the IFRS 17 Leases change is expected to widen this collaboration across the organization.

The Financial Communication of Company X was found to be a collaborative effort between several departments, including reporting, treasury, tax, management as well as investor relations. In addition to the Financial Communication team, the Global Finance organization includes the CFO, a Corporate Controller responsible for the Group wide reporting and different area controllers and finance directors. The CFO has his own treasury and tax team, and the Corporate Controller has his own reporting team. All these departments, as well as Company X's Strategic Management belong to the corporate performance management and development organization. These teams consist

of professionals from very different backgrounds, such as legal, political science, and business administration.

Company X has been said to publish 4 documents yearly. In addition to these yearly documents, Company X had a rather concise and straight forward quarterly report, which includes a management review of market developments. The managers provide information which creates a basis on how the markets have evolved, even before any reported figures are available. Once the figures from each department are available, the group reporting department consolidates these figures and the IR department starts writing the sections describing Company X's performance. The whole process requires very close cooperation between the IR department and Group Reporting. Cooperation is such that information is constantly shared, to the point of having a daily or hourly schedule on how information flows. Company X was found to come out rather quickly with its reports for a company its size. Each department is in charge of their own area, with reporting in charge of consolidating income statement items and balance sheet items, the tax department looking after taxes and the treasury looking after financial items. With constant dialogue and several iterations of checking, the process itself is very quick and intensive.

The information, in terms of financial reporting on the Income Statement and the Balance Sheet, was found to come from bookkeeping which is strongly bound to the operative processes. In terms of quarterly reporting, Company X had certain structures and frameworks which remain the same from year to year, which are updated according to the guidelines and accounting principles that govern the processes. An important aspect of controlling is considering how a certain phenomenon needs to be portrayed, and what sort of assessments need to be done.

In certain situations, the collaborative processes of Financial Communication also extended beyond the before mentioned departments involved in the financial reporting and communication. IFRS changes were found to have an important part to play in sparking wider collaboration within Company X. Regulatory changes such as the development of IFRS 3 Business Combinations have prompted company X's Mergers

and Acquisitions Teams to be increasingly involved in Financial Communication in order to establish the increased accounting effects that mergers might cause on the income statement. Collaboration between departments is essential in order to avoid surprises. At Company X the communicational aspect of mergers and acquisitions is important as every transaction needs to be thought through. Already when planning an acquisition the possible reporting effects of the acquisition are discussed with the Mergers and Acquisitions Team. Once an acquisition is completed, the process culminates with reporting and requires a lot of consideration in terms of what need to be told about the acquisitions and how it affects performance and the Balance Sheet.

An integrated change communication process relating to accounting changes and corporate events would enable Company X to approach organizational changes in a standardized manner. Although each change is undoubtedly different, a checklist type approach could possibly help avoid the usual pitfalls of managing changes affecting the Financial Communication process. This type of approach would also help with journaling challenges and experiences in order to pinpoint focus areas.

Also closer cooperation between departments on issues relating specifically to the IFRS 17 Leases standard change may prove helpful in the implementation phase, as well as on a long term basis. Once the communication channels for closer cooperation are established within the organization, it would be easier to address the various upcoming IFRS changes that are under works and will need to be implemented in the future.

4.2.3 Administration of Lease Contracts

This section touches upon the administrative challenges which are expected to be brought on by the IFRS 17 Leases standard change. The administrative requirements of lease contracts are expected to increase considerably, not only at the inception of the IFRS 17 Leases standard change, but also after due disclosure requirements.

Findings relating to the administration of lease contracts showed that compliance with the IFRS 17 Leases standard change, and the administrative burden related to it is a

significant issue for Company X. Adopting the standard is a considerable effort that needs to be done when the standard is enforced. Most companies are expected to have the prerequisites for dealing with the endeavor. However, the change is expected to require companies to integrate the new requirements into their IT, management and reporting systems. This integration project is going to create a lot of additional work, as asset registers need to be developed and the leasing contracts need to be maintained with a whole new level of detail.

According to the findings, the IFRS 17 Leases standard change is aspiring to make reporting more direct for companies on the matter of leasing by making statements more comparable. Leasing has been a difficult standard to implement so far and there have been some interpretation issues regarding the true nature of the lease agreements especially with regards to the bright line categorization of financial and operational leases. An attempt to reduce these variations and provide more information on the contracts was generally welcomed by the users, providers and regulators alike. However having such a drastic model where essentially rent agreements are reported on the balance sheet with increased disclosure in the notes had sparked some criticism.

The changing IFRS standard with its increased reporting requirements was expected to increase the cost of reporting. Functionalities in IT and management systems that ensure functioning accounting and information management under the new standard would be required. The standard was also expected to increase the required documentation of decision making with regards to lease contracts.

Similarly to the accounting frameworks that have been established throughout Company X, creating a uniform leasing framework may simplify the accounting, administration and communication processes related to leases. A standardized approach would address some of the uncertainties of implementing the new leasing standard and possibly help make the transition period smoother. Once more, cooperation between departments impacted by leasing and the IFRS 17 standard change would be beneficial for the drafting of the framework.

This subchapter discussed the internal processes and principles of Company X in communicating with the Financial Information Markets. The IFRS 17 Leases standard change is seen to cause challenges to the continuity of Company X's reporting, as well as the implementation, interpretation and administration of lease contracts under the new standard. A reconciliation bridge was seen to be required in order to establish the change in the financial position of Company X brought on by the new standard. However, this reconciliation bridge will require a Financial Communication strategy that supports it.

4.3 Effects of IFRS 17 Leases on Financial Communication and Disclosure

The following subchapter presents the results related to the third research question which addresses the effects of the IFRS 17 standard change, on the Financial Communication of company X as well as its disclosure. The subchapter is divided into two sections, the first discussing qualitative information and disclosure policy, and the second addresses interpretations of accounting principles and transparency.

The most significant findings relating to Company X's disclosure policy were that the qualitative and quantitative disclosure requirements are likely to increase. Managerial involvement will become a crucial issue in providing relevant value adding information to stakeholders. Such increased disclosure requirements are likely to increase the risk of over disclosing especially at inception, as there will not be widely established reporting conventions under the new IFRS 17 Leases standard. The importance of relevant and value adding disclosure is especially emphasized due to the rather subjective methods and interpretations used by analysts specifically in the valuation of Company X.

Findings showed that besides advocating for better transparency, the change promotes closer ties between Company X and its stakeholders, which can help overcome obstacles such as how to ensure the comparability of different length lease terms. Despite the challenges that the IFRS 17 Leases standard change presents, it also provides an opportunity to enhance the communication between Company X and analysts, as the scrutiny of Financial Communication is likely to increase. A closer

relationship can also help with successfully navigating through some of the various IFRS accounting changes that will be coming in the near future, as well as with other corporate events that may take place

4.3.1 Qualitative Information and Disclosure Policy

The present section addresses the changes in the amount of qualitative data and its importance caused by the IFRS 17 Leases standard. The section also briefly discusses the purpose of Financial Communication, from the point of view of the interviewees, and its implications on Company X's disclosure policy.

The importance of Financial Communication along with qualitative data has increased since the recent financial crisis and credit crunch. Findings showed that as companies have various kinds of investors, it would be beneficial for companies to actively address their different needs. This heterogeneity of the stakeholders accentuates the importance of clear and open reporting. The findings specifically emphasized the importance of striving to explain both the reported figures and the effects of IFRS standard changes on financial statements. Similarly the qualitative information, assumptions and management estimates were crucial details of financial statements as estimating constantly takes place throughout business operations. Despite having several guidelines one needs to use a significant amount of judgment in preparing financial statements. Company X said to have created standard interpretations and management assessments through consistent group level guidelines.

The most important issue was that the user gets a clear picture of the company's results and financial position, and has comparable information. Considering a standard change that is likely to be significant, the company needs to communicate adequately the effects of the change in their Financial Communication, reporting and notes. The findings show that users of financial information need to be able to understand if something major has occurred. In the case of the IFRS 17 Leases standard change, the management would need to identify the effects of the new leasing requirements. Any material effects should be explained to the users so that they can understand what has changed, and to what

effect. An observation that highlighted the difficulty of the lease accounting subject is that despite representing the users of reporting, the CRUF participants had some considerably differing viewpoints and had not reached a consensus on a number of points relating to the IFRS 17 Leases standard change.

A company's disclosure policy was found to be fundamentally based on the perceived purpose of Financial Communication. Timely disclosure to the capital markets on issues that affect share price is a corner stone of Financial Communication. The information naturally needs to be correct but what essentially creates added value is that the Financial Communication team possesses the judgment of what is truly relevant information. Interviewee 1 emphasizes the purpose of Financial Communication and its key principles.

> *"The main purpose of IR is to inform the market about the relevant issues of the company. Timeliness is a key element, so that the information is provided to all investors simultaneously and clearly, and that all investors have equal opportunities to utilize the information. And this is something financial authorities follow. Investor communication plays a crucial role for a listed company. " (I1)*

The findings showed that from a more functional point of view, the capital markets need to be able to trust, that the company's disclosure policy is consistent, and that nobody is discriminated against. In addition to enhancing and consolidating the corporate disclosure policy, Financial Communication is very much concerned with making sure that users of financial information understand correctly what is being done inside the company and what it is attempting to communicate. In other words, instead of simply communicating *to* the stakeholders, Financial Communication is communicating *with* their stakeholders in order to create a common understanding. As established throughout the interviews, share valuations are based on the perception of the value of the shares at a certain point in time, and as such is not a scientific truth. Thus creating a common understanding and trust can be pivotal in ensuring an accurate valuation and a stable share price.

Company X is found to be quite strict about their spokes persons, in an effort to make sure that its message stays consistent. The number of people talking with the markets is limited, which include the CEO, CFO and the IR Director. Other members of the management might meet with investors, but usually only with the IR Director present. However, this is only occasional whereas the CEO and CFO meet investors regularly. Communication is planned on a holistic level among the Corporate Controller, the IR Department, the CFO and the CEO, who together consider how issues are disclosed and how they should be communicated. Despite a strict disclosure policy, Interviewee 2 emphasizes the interactive role of an Investor Relations Director.

> *"(As an IR Director) I consider standing on a line with both feet on different sides of the line, which is the outer bound of the company. One foot is inside the firm, and the other is outside the firm. On one hand, I have a distinct role towards the investor community in serving their interests. On the other hand, from the point of view of the management, I have a distinct role in communicating and channeling their message in a specific way to the capital markets." (I2)*

Findings show that, it is crucial in the role of IR Director to view the company not only from the inside, like the majority of employees and the management, but also to view the company from an outside perspective and the viewpoint of investors. It is vital to see whether the outside understands correctly, what is being done inside the company and what it is attempting to do and communicate. A central function of the IR Director was communicating and collaborating with the different stakeholders of the capital markets and convey the sentiments of the owners and potential investors to the management.

Measuring how well Financial Communication achieves its goals and serves its purpose is very complicated, as established in Chapter 2.1.3 of the literature review. This notion was observed in a large part of the findings. The question itself is fairly difficult to address. The problem is that the indicators that Financial Communication deliberately tries to affect such as share price are influenced by so many other factors that it is

almost impossible to determine to which extent Financial Communication helped achieve targets. The Financial Communication department strived for a stable share price but cannot take credit or blame for any peaks or crashes. However, at Company X the Financial Communication function did self-assess rather critically if large unexpected movements occur.

The expected effects of the IFRS 17 Leases standard change on disclosure were rather mixed. On one hand, the amount of information needing to be disclosed will increase, and the detail at which some information must be communicated is also very likely to increase. On the other hand, the requirements for companies to disclose sensitive information are not expected to be affected thoroughly.

The IFRS 17 standard change was expected to affect Financial Communication from the point of view of qualitative data and disclosure continuity. The main concern was on how changes, for example in KPI's, will be communicated and elaborated on, whether they should be adjusted to the change or not. There were definitely challenges, as the change represents a rather significant effort for Company X.

Disclosure played a crucial role in the analysts' ability to make adjustments. In the case of the IFRS 17 Leases standard change, the most significant adjustments would be made at inception in order to cater for the notion of a 'step change', where one set of financials is exchanged for another. This raised questions in terms of interpreting the new situation. Each industry and sector has well established levels of profitability and other KPI's. Once the new IFRS 17 Leases standard is adopted, these levels were expected to significantly shift as the amount of assets and debt required to produce a certain amount of earnings changes. Interviewee 5 expressed her concerns on the changing conditions in the industries.

> *"If we have been used to a certain gearing ratio (debt-to-equity ratio), we would now have to get used to a new higher level. How do we then define what is high and what is low. And how long will it take to get used to the new level?" (I5)*

Analysts anticipated a considerable increase in the information required to successfully manage the transition from the current lease accounting standard to the new IFRS 17 Leases standard. Failing to adequately disclose and elaborate the proportional effects of the standard change on the income statement and balance sheet will significantly impede the analysts' ability to accurately carry out their valuation.

The standard change was expected to have considerable effects on the quality and amount of notes of financial statements. All interviews emphasized the fact the amount and importance of notes will increase. These notes will need to outline the basic assumptions made on the lease contracts, as well as information relating to their length and value. However, it was also essential that the information that is disclosed is value adding to the users, and actually contributes to enhancing the understanding of the lease agreements and their contribution to company X's financial position. Flooding the notes with irrelevant information on the lease contracts will only hinder the analysts' valuation efforts. As a strategically essential communication function, Financial Communication needs to serve Company X's purpose for being.

The composition of the amount capitalized on the balance sheet was admittedly a matter of considerable debate. The question was set around the issue of representing liabilities and risks as truthfully as possible without overtly increasing the impact of assumptions such as the use of options or the value of contingencies. The CRUF identified that any risks related to lease contracts should be disclosed in the notes, rather than included in the capitalized value of the lease. This again emphasized the already crucial role of qualitative information in financial statements and communication.

Findings showed that the increased requirement for notes brings about the risk of accounting gimmicks through lease accounting. Companies that are inclined to hide certain details of their financial result might be tempted to do so through the inception of the IFRS 17 Leases standard change. It is possible that some will try to take advantage of a period of uncertainty to massage the truth. Analysts report having witnessed such attempts in the past.

The CRUF acknowledged that capitalizing only contractual liabilities without any options or contingencies may increase the probability of companies formulating lease contracts that minimize the capitalized value, once again reducing the comparability and informational value of financial statements. However, the CRUF stated that "the purpose of the balance sheet should be to reflect the capital invested in the business along with capital adequacy, compliance with covenants and stewardship". This principle would suffer if uncertain payments were capitalized. Limiting the capitalization of lease liabilities to the contractual payments without options or contingencies was seen to ensure a meaningful 'post-implementation" capital ratio. However, information about estimated future liabilities should be included either in notes or clearly distinguished in the capitalized value.

The transition into the new standard was the most important part of the change. Once the standard is adopted the compliance was expected by Company X to be fairly straight forward. The recent change in IFRS 3 Business Combinations had significant effects on Company X's financial result, and subsequent Financial Communication. It was initially difficult for investors to understand why IFRS 3 requires amortization of intangible assets during their life time in the consolidation process. The most significant effect was that the EBITDA margin had to be amortized on the order book. Interviewee 2 describes the misalignment of expectations regarding the IFRS 3 change below:

> *"Since this is an important topic for us, I thought conceptually IFRS 3 requirements would be generally known but I have noticed that they are not. They came as quite a surprise for many investors and analysts, in terms of what it is amortized and why. (I2)*

The IFRS 3 change was expected to show in the investors' and analysts' forecasts for the following year's figures, since the amortization has a considerable diluting effect on their profit margin. The IFRS 3 change was a truly relevant issue, not just as a technical detail, but it affected Company X's result for the whole year negatively. The IFRS 3 change in 2008 was significant containing elements that affect the volatility of the income statement also after the acquisition date.

The IFRS 17 Leases standard change was expected to similarly have a significant effect on companies' performance figures. PricewaterhouseCoopers made an impact study in 2010 with The Rotterdam School of Management, in which the statements of 3000 listed companies were analyzed to evaluate the impact on debt to equity ratios, gearing and EBITDA figures. The study revealed some considerable impacts for several industries.

4.3.2 Interpretation of the IFRS standards and Transparency of Reporting

The current section presents the challenges related to the interpretation of the new IFRS 17 Leases standard, and the importance of conveying this interpretation to the users of financial information. The section also touches upon the question of transparency, and whether the IFRS 17 Leases standard change manages to increase it.

Looking back at the IFRS adoption in 2005, the accounting standards change had a big impact on Finnish stock listed companies due to interpretation issues of the IFRS standards. Some of the main concerns were the treatment of goodwill and the impairment testing related to it. Listed companies had already calculated some "IAS (International Accounting Standards) additions" in inventories. In the initial phase of changing standards, companies did not have a clear benchmark. IFRS standards are being constantly developed to make comparing easier users of information and other stakeholders. However, the constantly changing accounting standards are making it hard for these same stakeholders to keep track and understand companies' financial statements.

According to the findings, the initial IFRS adoption project was a great learning opportunity for understanding the accounting figures, since each principle was separately considered. That was when Company X's interpretation of IFRS was established, which required a significant effort.

From Company X's point of view the first real challenge that occurred due to IFRS regulation changes was the consolidation of the Company X's acquisition and its

financial impacts with the IFRS 3 Business Combinations. Managers, accountants and finance professionals in general, who need to follow financial statements and reporting principles, should have a good idea about IFRS changes and their effects. However, there was quite little discussion on IFRS issues in general with investors and analysts. If the capital markets understood the change well enough, then the challenges would not be substantial since the markets would be able to interpret what has changed and to what extent. Nevertheless, if there was something technically difficult about the change, people would not understand it fundamentally, which would cause problems with interpretations.

It is crucial from the point of view of users of information that a situation does not arise where the interpretation of the new standard differs significantly across companies. As IFRS is a very interpretation based standard, compared to the US-GAAP for example, it will likely take some time before a uniform interpretation is established across different companies.

Analysts agreed that a reconciliation bridge of at least 2 years of historical data is required in order to establish the effects of the IFRS 7 Leases standard change on Enterprise Value (EV), on Return on Capital Employed (ROCE), on EBIT and EBITDA, as well as the proportion of interest expenses attributable to leases. Analysts need to have a clear idea of what is the size of the step change on each of these measures. Findings showed that achieving this will require significant communication efforts from Company X. Additionally, it will require Company X to critically assess its disclosure policy in order to support analysts work and avoid any undesirable volatility in valuations.

The IFRS 17 Leases standard change was expected to have significant effects on the interpretation of leasing. Once again the findings showed rather mixed perceptions of the change at hand, and how much it will affect the function and use of leasing. On one hand, leasing is a distinct type of financing and a tool for cash flow management. On the other hand, as leasing is treated more similarly to buying and leases will be capitalized on the balance sheet, a significant incentive to lease is removed. Getting rid

of some items on your Balance Sheet by making a sale-and-lease-back agreement will not be an option in the future. Thus the effects of the change are likely to span beyond reporting and communication to actually influence operational and strategic decisions.

A concern that the findings brought up was how to make the various lease contracts comparable, since there was a multitude of complex deals of different lengths. A company will always need premises. This standard change raises the question of how and what to portray that in the financial statements, as addressed by Interviewee 3.

> *"It is difficult from the point of view of the Balance Sheet (to establish), what asset mass It is supposed to portray, or whether it portrays the liabilities, and the length of lease liabilities. Is it so that it brings out efficiency aspect in firms, showing that some firm needs only this much fixed assets or working capital assets to manage its business?" (I3)*

Overall the CRUF supported the principle of eliminating the somewhat arbitrary bright line distinction between operating and finance leases and the capitalization of lease liabilities. Currently the different classification and treatment of lease contracts on the balance sheet causes incomparability between companies. Also, as the distinctions differ between accounting standards, the distinction also made companies under different regulations incomparable.

However, the CRUF advocated for better disclosure in the notes including information on leasing policies and structure. The different risks and business implications associated with using either shorter or longer term contracts would be beneficial to disclose.

The transparency of reporting as well as notes providing enough additional information to the financial statements was essential when for example doing a peer group analysis. Users need to be able to establish the principles according to which the company has implemented the new standard. This would simplify from the current, rather colorful array of methods, without actual cash flows being lost within the financial information.

The findings agreed that the accounting effects of the IFRS 17 Leases standard change are significant on KPI's. These KPI's may be linked to covenants or executive compensation, or on agreements with suppliers and clients. From this point of view, the standard change may have considerable long-term effects, and the management will need to evaluate the consequences.

This subchapter presented the results of this study that relate to the outputs of Company X's Financial Communication and the disclosure requirements of the new standard that govern these outputs. The new IFRS 17 Leases standard is expected to directly affect the disclosure requirements of Company X and which will require Company X to review its disclosure policy in terms of adding value to the capital market stakeholders. Additionally, Company X is seen to face challenges in terms of comparability of lease contracts with different length terms as well as establishing new leasing principles under the new standard.

5 Discussion

The following chapter reviews the findings of the empirical research from the point of view of the theoretical literature used for this research. The chapter discusses how well the theory used in the literature review supports the research undertaken in this thesis. First, the Theoretical Framework is evaluated in light of the findings. Then the chapter addresses the findings relating to each of the research questions. Findings from both the interviews and the supporting data are reflected against the theory.

The findings of this study are supported by Barker's (1998) research in terms of the role of analysts and institutional investors in the "market for information". His research is used to understand the basic information flow from a company to its stakeholders. However, Barker's (1998) model does not address how the markets for information communicate back to the company. Ikäheimo and Mouritsen's (2007) research is used to complement Barker's model by adding an element of reciprocity to the information flow. Barker's (1998) and Ikäheimo and Mouritsen's (2007) research combined with Strategic and Integrated Communication research by Hallahan et al. (2007) and Cornelissen (2008) respectively form the basis of the research, i.e. the Theoretical Framework. This framework helps shed light on how a company interacts with its stakeholders, and how a change like the IFRS 17 Leases standard change affects that communication.

The Theoretical Framework succeeds in combining the concept of an information ecosystem with the specific roles of the different stakeholders of the Financial Information Markets. This enables the research to address how Company X, as a provider of information contributes to these markets. However, as a structural framework which concentrates on the interaction of the stakeholders, the Theoretical Framework does not fully address the actual process of Financial Communication, i.e. how a message is formulated and how it is communicated. More emphasis on this process may have been beneficial for the findings of this study. However, such an increased focus would have also widened the scope of the study considerably.

The first research question addresses how the changing treatment of leases under IFRS 17 is expected to affect users of financial information. The aim is to understand the information needs and motivations of users to establish the inputs that they create for Company X's Financial Communication function. As academic research directly addressing the IFRS 17 Leases standard change on users of information is scarce, this research uses general theories of Financial Communication. Although lacking specificity, these theories combined with the currently available knowledge of the IFRS 17 Leases standard change form a substantiated basis for the findings relating to the first research question.

The findings of this research are underpinned by the information priorities of analysts established by Gilfeather (2003), Lang and Lundholm (1996), and Virtanen (2010). Gilfeather (2003) discusses both the reporting and marketing roles of Financial Communication. Especially the marketing role focuses on conveying the outlook and strategy of the company, which was emphasized by the findings of the analyst interviews. The fact that analysts and investors are not only interested in hard data but also in a rather qualitative view of the management skills and the perceived sustainability of earnings is one of the fundamental principles which this research is based upon. Findings show that this qualitative information is expected to be largely affected by the IFRS 17 Leases standard change.

The findings of this research emphasize the importance of personal communication with key members of the Financial Communication team, in order to enhance the information reported in financial statements. These findings support Virtanen's (2010) view that analysts and investors are not only interested in hard data reported in the financial statements but also the management's perceived ability to consolidate the company's strategy and sustain the flow of income. Research by Ikäheimo and Mouritsen (2007) as well as Lang and Lundholm (1996) also support this view.

Additionally, the findings of the present research show that analysts preferably communicate directly with Company X's Investor Relations Director. These findings are in line with previous research by Lang and Lungholm (1996) which shows that

interviews with company executives are the preferred source of information among analysts.

The principles upon which Company X measures the quality of its Financial Communication reflect those established by Virtanen (2010) and Ikäheimo and Mouritsen (2007). Both the qualitative measures, such as awards and studies, as well as the quantitative measures, such as share performance, emerged as indicators of the quality of Company X's Financial Communication. Especially, unexpected share price development and volatility were established as indicators of potential problems in Financial Communication, which concurs with the reciprocal nature of trading activities and the Financial Communication function, as argued by Ikäheimo and Mouritsen (2007).

The findings of this research did not find evidence to support the views of Argenti (2007) and Virtanen (2010) on the crucial role of emerging communication media in Financial Communication. Neither the Financial Communication professionals, analysts nor the auditor acknowledged the role of webcasts podcasts, blogs or internet community pages, discussed by Virtanen (2010). However, this may be a result of the focus of this research.

The second research question addresses how the increasing requirements of the IFRS 17 Leases standard are expected to affect Company X's Financial Communication process. This research question is less of a focus area in the literature review compared to the other questions. Thus, the research may benefit from a wider theoretical foundation in terms of developing a Financial Communication process. However, the literature review does address the primary strategies and principles of the Financial Communication process. Additionally addressing the question of how the Financial Communication process should actually be organized in the literature review would be outside the scope of this study.

Research by Virtanen (2010), Ikäheimo and Mouritsen (2007) and Heldenbergh et al. (2006) on the tools and strategies of Financial Communication resonated throughout the

findings of this research. The supporting material also provides evidence that underpins the principle tools established in the literature review. However, an interesting observation is that although the development of technology is allowing new ways to communicate, like an investor relations homepage, or webcasts, the findings show that the way analysts gather information from the company is still very much dominated by traditional ways of communicating, i.e. phone and personal meetings. These traditional communication media are only supported by webcasts and other means. This calls into question how fast the nature of Financial Communication is actually developing. An alternate interpretation of this finding is that the emerging stakeholders of Financial Communication are more prone to using new communication media and thus drive this development whereas analysts rely more on traditional media. These findings would have significant implications on how company X structures the message of its Financial Communication efforts.

Heldenbergh et al. (2006) emphasize the importance of developing communication tools and strategies specifically for transition periods, utilizing strategies and principles adopted from crisis communication theory. This research provides a theoretical foundation to the concept of a “step change” caused by the changing IFRS 17 Leases standard, established in the findings. Such a step change regarding Company X’s financial reporting essentially requires issue specific communication, as Cornelissen (2008) describes it, and may benefit from crisis and change communication theories. However, as the research by Heldenbergh et al. (2006) concentrates on mergers and share issues, and Cornelissen (2008) concentrates on crisis communication, these theories can only be adapted to accounting standard changes with certain reservations.

The third research question addresses how the IFRS 17 Leases standard change is expected to affect company X’s Financial Communication disclosure. The focus is on the outputs, outcomes, message and continuity of Company X’s Financial Communication. The third research question provides a point of contrast to the first research question. Thus they share a large part of the theoretical background used in

order to understand the reciprocal nature of a boundary spanning and strategic corporate function that is Financial Communication.

Virtanen's (2010, pp.22-23) statement of Financial Communication being a distinctively managerial responsibility has direct implications on the setting and findings of this research. The findings address the strategic significance of Company X's disclosure policy, as elaborated by Gaa (2010) and Gietzmann, Shyla and Thomas (2003) in the literature review. The findings agree that responding to stakeholders' information needs can be beneficial for a company. However, the findings also address the risks related to over disclosing potentially sensitive information.

Similarly, the purpose of Financial Communication established in the findings is very much in line with the purposes stated in the literature review (Virtanen 2010, Inoue 2009, Gaa 2010 and Barker 1998). The main aims include reducing information asymmetry, marketing the company's shares, conveying an investment story as well as ensuring a stable and fair valuation. Specifically Ikäheimo and Mouritsen's (2007) notion of the Financial Communication acting as the gatekeeper of information emerged in the findings.

Invernizzi and Romenti (2003) discuss the strategic role of a communication function. They find that communication as a boundary spanning function that serves the purpose of gathering and conveying environmental signals within the company, as much as it serves to send signals or messages. This view is somewhat similar to the notion of gatekeeping by Ikäheimo and Mouritsen (2007) as well as the purpose of Financial Communication discussed in the findings. They point out the importance of a Company meeting investors and analysts in person to receive signals form their stakeholders. The findings emphasise how the Financial Communication function needs to critically evaluate whether the external stakeholders understand correctly what is happening inside the company. This in turn reinforces Argenti's (2007) principle of measuring the success of a communication effort by the response in the receiver, rather than the point of view of the communicator. This along with other fundamental principles of corporate

communication used in this research is based largely on Argenti's (2007) school of thought.

According to Cornelissen (2008), a communication strategy is built around the desired perception of the company among its stakeholders. The main emphasis is on narrowing the gap between, or reinforcing the alignment of the corporate reputation, and its vision. These themes echoed throughout the findings, in terms of providing correct, timely and relevant information to the markets. Similarly, the findings from the analyst interviews emphasize the importance of perceptions in Financial Communication and valuation. Thus the communicated message and desired perception play an important role alongside hard financial data. This finding is also supported by a research by PwC which found that the main sources of volatility lie in non-financial information as opposed to different interpretations of corporate reporting.

Shahwan's (2008) research of the principles of financial reporting highlights the importance of providing value adding and relevant information that serves the decision making process of the users of information. These principles are present throughout the findings as the both the Company X's Financial Communication function as well as the supporting data on the IFRS 17 Leases standard change specifically argue for the user perspective of voluntary and regulatory disclosure requirements. Shahwan's (2008) research sheds light on the long term aspirations that financial reporting and communication strive for, and thus provides an invaluable reference point to the study of the IFRS 17 Leases standard change.

Shahwan's (2008) study found that financial reporting standards do not always succeed in reflecting economic reality on an adequate level. The findings of the present research support Shahwan's (2008) findings. In order for Company X to enhance its Financial Communication and reporting, it needs to assess the requirements of its stakeholders and provide value adding information, beyond the scope of reporting standards. Shahwan's (2008) research on the principles of financial reporting highlights the importance of providing value adding and relevant information that serves the decision making process of the users of information.

The findings of this research have direct implication with regards to Lang and Lundholm's (1996) research on the effects of disclosure on analyst following and accuracy of forecasts. Firstly the findings reveal that investor relations as a corporate function is indeed considered a way to market the investment story. Secondly, the overall attention a company pays to Financial Communication and how well the Financial Communication function cooperates with analysts is found to be a crucial issue regarding valuation.

Supporting Lang and Lundholm's (1996) research, the findings of this study revealed a technically substantiated connection between the proactive disclosure of companies and the accuracy of analysts' forecasts. This connection relates to adjustments made by analysts, which are essential to valuation. If a company does not clearly disclose one offs and other information required by analysts to adjust earnings, the analysts are unable to perform their valuation in reliable manner. This would affect the accuracy of valuation negatively and most likely wane investor following.

Thomas' (2003) research on supporting information for sustainable corporate performance is in line with the findings of this research, in terms of the key drivers of valuation. The findings show that information relating more directly to the sustainability and composition of growth and profitability would help better serve the needs of investors in evaluating the quality of corporate performance.

Heldenbergh et al. (2006) argue that Financial Communication has a crucial role in formulating the corporate image and reputation. The findings of this research emphasize the importance of the continuity of disclosure and the going concern of corporate reporting, from a communication point of view. This also entails Argenti's (2007) view on a company's reputation and current image in the eyes of its stakeholder forming the basis of a communication strategy. In order for a Financial Communication effort to be successful, there needs to be a common understanding between the company and its stakeholders on the reputation that the communication effort is based on. In Financial Communication, this reputation refers to the usefulness and faithfulness of the information, and how consistent and timely it is. The findings of the analyst interviews

as well as the findings relating to the Financial Communication professionals widely supported this viewpoint.

This chapter discussed the relevance of the theory presented in the literature review and the theoretical framework to the empirical research. One can conclude that several themes and observations brought forward in the literature review manifest in the findings. The Theoretical Framework brings structure to the study as well as serves as the link between the Corporate Governance theory and Communication theory. These research traditions together with Strategic and Integrated Communication research weaved together to form a consistent basis for the empirical research. Although research on Corporate Governance has been conducted mostly under finance and accounting departments, whereas Communication research is conducted under communication departments, some clear meeting points of the two disciplines did emerge.

It is the author's view that financial reporting and Financial Communication, as boundary spanning functions have more in common with other types of communication functions, than research tradition would suggest. Inherently these functions are concerned with similar principles such as ensuring the continuity and consistency of the message and minimizing the communication gap or information asymmetry. One could go as far as comparing corporate reputation with fair valuation. Both concepts are based on the trust that stakeholders put in a company's ability and willingness to conduct its business in a sustainable manner.

6 Conclusion

This chapter summarizes the research undertaken in this thesis and presents the main findings of the research. The chapter also draws conclusions based on the empirical research as well as makes recommendations based on the findings. The chapter finally discusses the limitations of the study and presents some suggestions for future research.

6.1 Research Summary and Main Findings

The purpose of this research was to anticipate and understand the effects of the IFRS 17 Leases standard change on the Financial Communication of a large Finnish multinational coined Company X. The research also sought to uncover the extent of these effects, in terms of scale and scope. This means understanding the importance and depth of these effects, as well as how wide spread these effects are across the different departments of company X. Once uncovered, the study sought to make recommendations based on these effect and their consequences on Company X in order to mitigate them.

In addition to the main purpose of the research, this study also sought to reduce the lack of academic research relating to the upcoming IFRS 17 Leases standard change. Although many of the big four accounting firms have published studies on the IFRS 17 Leases change, there is very limited independent academic research on the subject. The study further aimed to bring a fresh perspective on the study of IFRS standards. Most research on accounting standards is conducted within accounting and finance departments. Financial Communication, however, is by definition a cross disciplinary function, which would benefit from the study of accounting changes from a communicational perspective. Furthermore, with the expansion of Financial Communication onto a widening array of stakeholders and the increasing frequency of standard changes, there is a substantial need for this type of qualitative research.

The research concentrated on the main stakeholders of the Financial Information Markets, i.e. providers of financial information, users of financial information and

regulators of financial information. By understanding what drives these stakeholders and how they communicate with each other, this study strived to identify the effects and consequences of the IFRS 17 Leases standard change on the Financial Communication of Company X.

This study was conducted through qualitative research. The data was collected using six semi-structured interviews with Financial Communication professionals, financial analysts as well as an auditor. The interviewees were selected according to their past exposure to the IFRS standard changes, background, and relation to Company X. Supporting data was collected from articles, press releases and other publications to support the interviews and gain further insight on the subject.

The study yielded nine main findings which are summarized in Table 4, along with the main conclusions related to each finding. These findings are explained in the following paragraphs. Three practical recommendations drawn from these findings are presented in the next subchapter.

The most important finding of the study relates to the fact that analysts find valuing Company X unusually difficult, and that these difficulties are likely to increase. These difficulties are present in virtually all methods of valuation and stem from Company X's industry, size, growth prospects and geographical location. The IFRS 17 Leases change will create an additional layer of uncertainty through changing KPI's of both Company X and potentially its peers. As the increased transparency to the capital structure brought on by the new IFRS 17 Leases standard does not address any of the issues that cause analysts difficulties valuing Company X, the uncertainty around Company X's valuation is very likely to increase. Understanding the extent of this uncertainty and taking it into consideration in future communication efforts will most likely be beneficial for Company X.

The second main finding shows that the difficulties related to Company X's valuation emphasize the importance of more holistic Financial Communication, as opposed to simple reporting. The reason for this is that due to the above mentioned difficulties,

analysts need to rely heavily on ‘gut feeling’ as opposed to hard data in their valuation process. The fact that valuing Company X is not an exact science was repeated several times in the findings. In other words, an efficient way to improve the accuracy of Company X’s valuation seems to be communicating more forward looking qualitative information about its business, in order to enhance its stakeholders’ understanding of Company X’s future state.

The third main finding relates to the way Company X communicates with its stakeholders. Although praised for very high quality Financial Communication, Company X’s approach to communicating with analysts is rather unstructured, especially when it comes to change communication. With a widening group of stakeholders, this ‘ad hoc’ type of approach to issue communication can leave Company X exposed to unexpected reactions. Also, it may increase a lack of awareness relating to changes affecting reporting, such as the IFRS 17 Leases standard change. This widening group of stakeholders needs to be communicated to proactively taking into consideration their various levels of expertise relating to corporate reporting. Company X’s Financial Communication might benefit from moving away from the traditional communication channels directed towards a finite group of stakeholder, towards a broader approach.

There are three main findings related to Company X’s Financial Communication process. Firstly, the IFRS 17 Leases standard change is likely to have widespread effects within a number of departments which are more or less involved with Financial Communication, due to increased disclosure requirements. Such effects may cause disruption in the regular workflow and possibly require specific change management and communication efforts. Secondly, the IFRS 17 Leases standard change is likely to create challenges to administrating lease contracts, maintaining a required level of visibility into Company X’s lease commitments, as well as drafting new lease contracts so that they adhere to Company X’s leasing strategy and support adequate reporting. Reviewing Company X’s current and future lease commitments would be beneficial in order to understand the impact of the standard change on Company X’s lease contract

base. Thirdly, Company X will more likely than not require a reconciliation bridge between pre-change and post-change financial statements, which will need to be supported by communication efforts that elaborate on this bridge. The Financial Communication department would need to evaluate their stakeholders' information needs during the transition phase and establish how long a bridge is required.

Finally, there are three main findings related to Company X's Financial Communication and disclosure policy. Firstly, the IFRS 17 Leases standard change advocates for more transparent reporting. Company X's will most likely need to provide more qualitative information on assumptions, management estimates and the overall principles on which it has implemented the new IFRS 17 Leases standard. Secondly, the rather heavy disclosure requirements related to lease contracts may force Company X to inadvertently flood their reporting with irrelevant information that actually does not serve the users of information. Thus it is crucial that Company X establishes a consistent interpretation of the new IFRS 17 Leases standard, reviews its disclosure policy based on that interpretation, and evaluates which information is value adding to users. Thirdly, the changing disclosure requirements and the subsequent reporting is likely to increase the scrutiny of Company X's financial statements, creating both challenges as well as opportunities for Company X's Financial Communication function. How Company X responds to these challenges will largely determine how well it will be able to leverage the change in the IFRS 17 Leases standard, and achieve an even more user focused and responsive Financial Communication function.

Table 4. Summary of Research Questions, Key Findings and Conclusions

Research Question	Main Findings	Conclusions
How is the changing treatment of leases under the IFRS 17 expected to affect users of financial information?	1. Challenging valuation is expected to become even more difficult as IFRS 17 Leases standard change creates an additional layer of uncertainty, without addressing the sources of the original challenges 2. Main drivers of share price are heavily influenced by subjective perceptions, which are emphasized by increased uncertainty 3. Unstructured Financial Communication with an increasingly heterogeneous group of stakeholders may present issues when the new IFRS 17 standard is implemented	-Understand and mitigate the sources of uncertainty for analysts and other users through stakeholder analysis. -Provide more structured and holistic Financial Communication which addresses the different levels of proficiency of accounting standards among stakeholders. -Communicate proactively to support the awareness and develop the understanding of stakeholders regarding IFRS.
How are the increasing requirements of the IFRS 17 Leases standard expected to affect Company X's Financial Communication process?	1. Disclosure requirements are more likely than not to increase, causing cross functional effects across departments along with challenges drafting lease contracts 2. Increasing disclosure requirements highlight the probability of administrative challenges related to lease contracts 3. A reconciliation bridge is required due to an expected step change in KPI's along with a Financial Communication strategy that supports this bridge	-Critically evaluate what is vital information within the scope of the new IFRS 17 Leases standard regarding lease contract drafting. -Review current lease contracts base and leasing guidelines in order to obtain a clear view of the company's lease commitments. -Put in place a standardized approach to IFRS changes as well as establish what determines the length and requirements of a reconciliation bridge and the supporting communication effort.
How is the IFRS 17 Leases standard change expected to affect company X's Financial Communication outputs and disclosure?	1. Risk of over disclosure emphasizes the need to self-assess current disclosure policy on the basis of the new standard and its requirements 2.Unfamiliar format is likely to increase scrutiny of reporting and create both challenges and opportunities for the Financial Communication function 3. The IFRS 17 Leases standard change promotes transparency of disclosure and closer communication with stakeholders	-Re-evaluate current disclosure and Financial Communication policy based on the new reporting requirements. -Assess what information is crucial and most value adding to Company X's stakeholders. -Be prepared to provide supporting information and proactively communicate the principles upon which the new standard is implemented.

6.2 Recommendations

Based on the findings of the research and the conclusions drawn from them, the author has gathered three practical recommendations for Company X. These recommendations are complemented by some generalizations of the findings.

Firstly, Company X would benefit from adopting a more structured approach to Financial Communication, especially during transitions, to ensure that all stakeholders are aware of what is happening within the company. This means not only providing information when required or requested, but actively promoting and offering information that is possibly value adding. This could be achieved through a regular publication highlighting the most important events and upcoming issues relating to reporting and Financial Communication. The publication could include, among other things, a summary of the last quarterly results, a review of upcoming accounting changes, possible extraordinary items, acquisitions, changes in exchange rates, changes in raw material prices and so forth.

Secondly, Company X would benefit from addressing the widening base of stakeholders concerned with Financial Communication. This could be done for example, by setting up a layman's guide to reviewing Company X's financial statements. This guide would present a basic analysis of Company X, its operating environment, strategy, governance and the principles on which Company X's financial statements are prepared. Although most of this information is present in Company X's current publications, it may prove beneficial to compile it in a more accessible and approachable form. This would enhance the ability of Company X's Financial Communication department to fulfill its function of marketing the company shares to new investors, as well as assist the stakeholders' decision making process that are not experienced in reviewing financial statements.

Thirdly, Company X would benefit from setting up a standardized approach to IFRS changes which would outline a stage by stage timeframe, a structured analysis of the effects of an IFRS standard change and a change communication plan. By setting up a

standard evaluation method and procedure, Company X would be able to differentiate more easily the significant standard changes from less significant ones and thus manage their preparation better. This would also ensure that the entire implementation process of a standard change is completed from start to finish in a controlled and consistent manner, preferably acquiring feedback from stakeholders at the end of the process, in order to develop it further.

Despite focusing on the effects of the IFRS 17 Leases standard on Company X, the research does provide some findings that can be applied with certain considerations on a more general level, to Company X in different regulatory changes, as well as to other companies.

The findings of this study relating to the IFRS 17 Leases standard change and its effects on KPI's and profitability can be generalized to other current and future IFRS changes to a certain extent. Although not all IFRS standard changes have such wide spread and significant effects as the IFRS 17 Leases standard change, most changes follow the fundamental principles established by the IASB in terms of reflecting the fair value of assets and liabilities, and recognizing any changes in those values through the income statement. These principles will inherently affect KPI's and profitability, to various proportions.

The present research concludes that changes in accounting standards, such as the current IFRS 17 Leases standard change can have a significant effect on Company X's and potentially other company's financial statements as well as its Financial Communication. Depending on the nature of the standard change and the company in question, these effects can extend from internal effects regarding the process of producing financial information to more external effects regarding disclosure and stakeholder perception. This finding reinforces the perception that accounting standards can be significant from a communicative point of view and encourages further communication research as well as other cross disciplinary research of accounting standards.

The study also concludes that the importance of Financial Communication is emphasized for companies with unusual characteristics such as growth prospects, multiples or profitability, to name a few. Such unusual characteristics make valuation challenging, as the share price often cannot be fully explained by hard financial data, but rather stem from investor sentiment regarding the company. Such valuations emphasize the importance of qualitative information and the role of Financial Communication over simple reporting.

The findings of the research also support the view that companies would benefit from an increasingly proactive approach to Financial Communication. Analysts repeatedly mentioned their inability to consistently follow all the changes affecting the companies that they follow. Thus proactively communicating about any significant changes, issues and corporate actions in order to create awareness among a widening group of stakeholders would be beneficial. Furthermore, the pace of IFRS changes is increasing due to a global effort to harmonize accounting standards, so adequate communication is essential.

6.3 Limitations of the Study

The research conducted in this thesis faced several limitations and challenges, both from the point of view of formulating the research and creating a research plan, as well as actually conducting the research. The following paragraphs present some of these limitations and how they affected the progress of the research and the end result.

The first limitation is the fact that the study focused on interviewing professionals of Financial Communication and financial analysis. Although necessary to establish a substantiated view on the expected effects of the IFRS 17 Leases standard change, the findings reflect only the views of professionals, as opposed to all potential stakeholders. This was a conscious choice and is addressed in the suggestion for further research.

The topic of the research was rather technical which meant that a considerable amount of preparatory work was required in order for the author to gain an in depth enough

knowledge of the IFRS 17 Leases standard change, its motives and the principles upon which IFRS bases its regulatory development. As a qualitative study of a complex matter, the findings of the study relied heavily on the author's ability to understand the findings, notice patterns and draw conclusions.

The challenges that the IASB has faced during the preparation of the new IFRS 17 Leases standard have also created limitations to this study, due to the changing scope of the upcoming standard. Thus the study could not address every aspect of the new standard. As touched upon in the introduction chapter the IFRS 17 Leases standard has been delayed and reviewed several times due to the opposition and criticism it has experienced since the publication of the first Exposure Draft in August 2010. The final standard was to be published during 2011, with implementation as early as 2014. The IFRS foundation was forced to publish a second exposure draft due out in Q2 of 2012, which was then pushed back as far as May 2013. Currently the IFRS is expecting to publish the final standard in 2014.

Due to the above mentioned changes, some interviewees had rather limited background knowledge of the latest technical details of the upcoming standard. As the standard is not finalized to this day, some details could not be addressed. However, during the study, the main developments of the standard became clear and thus the fundamental effects on Company X's Financial Communication as well as the users of said communication.

Due to the delay of the standard and the subsequent uncertainty around the publication of the new exposure draft, the interviews had to be conducted in two separate sets. The initial interviews with Financial Communication and reporting professionals from Company X, as well as the auditing firm of Company X were conducted between February and April of 2012. The second set consisting of the analyst interviews was conducted in March 2013. Thus the future standard looked rather different between the two sets. However, the main difference is that the somewhat radical standard draft was pulled back to a more reasonable form. Hence the first set of interviews actually discussed more in depth some details that since then look unlikely to be part of the final

standard. This means that the results from the first interviews are still valid although some discussion may be unnecessarily thorough. This has naturally been considered when compiling the findings of this thesis.

6.4 Suggestions for Further Research

In light of the perspective, research design and results of the research conducted for this thesis, the author sees a number of fruitful paths for future research. This future research could potentially address some of the limitations of this research, shed light on the aspects that were not addressed and further develop our understanding of the new IFRS 17 Leases standard and its effects on companies financial reporting and communication. Additionally, it may be beneficial to apply similar methods to study other IFRS changes as well.

The first and most obvious suggestion is to recreate the current study from the point of view of another company besides company X. The IFRS 17 Leases standard change should have quite different effects in different industries. These would be beneficial to study. Similarly a different geographical focus may provide alternative findings.

Secondly, a quantitative study on the effects of the change, once it is adopted, could help confirm or reject some of the assumptions and findings of this study. One such assumption is the increased requirement for communication which, if not addressed by companies, may result in increased volatility in the share price or a wider range of target prices by analysts. Also the expected volatility of performance figures and profitability would be worth while studying.

Thirdly, a similar study on another IFRS standard, already implemented or upcoming, would help with understanding the effects of IFRS changes on a broader level. As discussed throughout the study, the IFRS is going through an unprecedented series of changes in order to achieve comparability beyond borders and accounting systems. Many of the past and future IFRS changes are based on the same principles as the current IFRS 17 Leases standard change, so similarities in their effects are likely to be

present although in varying scope and scale. IFRS standards are mostly studied from a very financial point of view, under finance or accounting departments, and thus a focus on Financial Communication may be beneficial.

A similar study on the alternative stakeholders of Financial Communication, such as suppliers, customers, employees or governments may also be beneficial. Such s study would shed light on the information requirements of these stakeholders and how to better incorporate their needs in the Financial Communication efforts.

Finally, the IFRS 17 Leases standard change is expected to have considerable effects on lessees as well as lessors. This study concentrated exclusively on the effects for the lessee, for the sake of Company X and the widespread practice of formulating lease contracts so as to not be shown on the lessees' balance sheet. Studying the effects of the IFRS 17 Leases standard change on lessors and their Financial Communication may well prove to be useful.

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APPENDICES

Appendix 1: Auditor Interview

Background Information

1. Name, company, position, tasks
2. Study background
3. Career

IFRS Projects

1. What are your experiences in IFRS adoption in 2005and other IFRS changes?
2. Describe the typical change process.

The IFRS 17 Leases Standard Change

1. What is your understanding of the change and its motivations?
2. How do you believe the change addresses its original goals?
3. What are your expectations regarding the change?
4. How have you prepared for the change?

Information Requirements

1. How does the change affect your current work?
2. How would you like to be communicated to about the change?
3. How do you see the transition period?

Financial Communication

1. What do you see as the main purpose of Financial Communication
2. What is the role of Financial Communication for your work?
3. How does change affect information asymmetry and valuation?
4. What information do you prioritize in your work?
    a. Qualitative
    b. Quantitative

Appendix 2: Financial Communication Professional Interviews

Background Information

1. Name, company, position, tasks
2. Study background
3. Career

Financial Communication

1. What do you see as the purpose of Financial Communication?
2. Describe you Financial Communication Process?
3. How do you ensure the quality control of your Financial Communication?
4. What information do you prioritize in your work?
    a. Qualitative
    b. Quantitative

The IFRS 17 Leases Standard Change

1. What is your understanding of the standard change and its motivations?
2. What are your expectations regarding the change?
3. How have you prepared for the change?
4. What effects do you foresee it having on your current work?
5. Describe the measures you are taking regarding the transition period?

Appendix 3: Analyst Interviews

Background Information

1. Name, company, position, tasks
2. Study background
3. Career experiences

Interaction with Company X

1. What are the main communication channels used and which do you prefer?
2. How would you describe Company X's Financial Communication?

Valuation Process

1. Describe your valuation process?
    a. DCF
    b. Comparables
2. What information do you prioritize in your valuation process?
3. How do you control for the quality of the financial statements used in your valuation?
4. What supporting information do you use in your valuation?

Past IFRS and Other Accounting Changes

1. Describe your experiences from the IFRS adoption?
2. What can you tell me about the recent IFRS changes?
3. What sort of adjustments do you make in relating to accounting changes?
4. How do you treat changes relating to takeovers?

The IFRS 17 Leases Standard Change

1. What is your understanding of the standard change and its motivations?
2. What is your take on the current standard?
3. What effects do you expect the standard change to have?
    a. Accounting
    b. Management
    c. Administration
    d. Interpretation
    e. Key Performance Indicators
4. How do you expect the change to affect your work as an analyst?
5. How have you prepared for the change?