The world economic crisis - key moment for redefining the borders of financial communication

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Abstract. *In the last few years, both companies and financial institutions have greatly expanded the sphere and the content of the financial communication in order to meet the increasingly demanding audience and the higher legal requirements. The international financial crisis has increased the market's sensitivity to the communication strategies of firms and central banks and has given entirely new coordinates to the financial communication. The capital has never been more global and neither the competition between companies has ever been stronger. In this context, many companies are redefining the limits of communication with investors and analysts in order to reduce the risks associated with unfavourable conjunctures and lack of confidence. The central banks understand that an efficient communication is more than necessary in times of increased uncertainty, when the public is faced with a lack of confidence in both economy and in those that create and implement the economic policies.*

Keywords: financial communication, transparency, strategy, crisis

Introduction

The world economic crisis has caused changes regarding the approach of any information on companies' financial results. Nowadays the firms have only two options: to learn what real transparency really means or to disappear. The efficient financial communication is crucial to attract and retain the investors' interest, to support actions on the stock exchange quotation or to perform a successful transaction. The distrust of all audiences has become so high that the slightest trace of hypocrisy may become fatal.

Central banks worldwide have intensified their communication efforts with the specialized and general public, in particular since the start of the financial crisis in August 2007, in order to enhance the effectiveness and credibility of their monetary policy. Communication and transparency of the monetary policy have become key elements of modern central banking[3].

In this paper, we will analyze two dimensions of the financial communication: one carried out by companies as a part of their global communication strategy and one achieved by central banks as a tool with a defining role for their monetary policy efficiency. We plan to emphasize the fact that the current economic crisis marks a turning point for this type of communication, by turning it into a key asset of the image capital of any institutions and it also marks a necessity for maintaining the trust of the target audience.

Irrespective of type of the institution that it is carried out by – financial or non-financial – the financial communication represents the strictly law regulated discourse of the organization, lying at the crossroads of an organizational level and the objective one of a company. The financial communication tools include: annual balance sheets, activity reports, releases, information meetings, investors' days, financial advertising.

Financial communication-part of company's overall communication

In a world where shareholders' satisfaction is situated in the centre of the management's attention, the communication which is directed towards these investors becomes a fundamental component of the strategy. The investor expects a clear and structured discourse on the organization's strategy and positioning. Whenever a communication campaign is being analyzed, its context has to be

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[3] "Central bank communication in periods of heightened uncertainty", *ECB Monthly Bulletin*, (November 2009): 71-72, http://www.ecb.int/pub/pdf/other/art1_mb200911en_pp71-79en.pdf?e33e6e8bc8441e82a43606dd2a84289a

determined, which is its dominant vector. In general, there are several levels required, but one is privileged. For instance, behind corporate communication there is always a financial aspect.

Financial communication should focus on several fundamental ways: growth-reflected by the level of turnover or by exploitation results-value creation and good risk management[4]. It is a communication technique that allows the firm to inform and reassure at the same time their different partner categories (shareholders, institutional or individual investors, financial analysts, employees) about choices made and to present a good image of the company.

In the past the financial communication was seen as an annex to the company's overall communication strategy, which was required only in order to meet legal requirements. Although it is a necessary part of any communication process in ensuring continuity and consistency of communication at the organization, the financial communication had been exceeded in terms of attributed value and interest and resources provided by experts in communication from the other three forms of communication: product, brand and corporate communication. The explanation for this situation lies in the fact that matters relating to stocks, interbank interests, mergers, acquisitions, balance sheets and other financial results concerned a limited number of people, so that the financial communication was particularly addressed to investors, bankers, financial analysts and business media. These audiences are important for a good financial image, which can help obtaining a credit and attracting funding and investments. The general public wasn't informed more than the turnover or profit's growth. Stagnations or decreases were very rarely notified.[5]

In the current economic context marked by the global economic crisis, the role and relevance of the financial communication have greatly increased and information on financial results gained a vital importance. The area of interest on these financial results moved from the original target composed of traditional receivers of this information, to the general public, as people seek answers to questions like: how much will they be affected by the economic instability and what should they do[6]. But the mandatory requirement for both old and new audience, which the financial communication should take into consideration, is the transparency and the veracity of the provided information.

If the financial information must comply with legal requirements, the financial communication depends on achieving a strategy. This strategy has a dual role: to provide the financial information and to contribute to promoting the company's financial image. The continuous increase of the target audience involves combining continuous and coherent information of the specialists with that of the general audience. A good financial image will allow the organization to attract not only capital, but also people, markets and partners, required for its development. In the current context, which is marked by uncertainty and risk, the transparency regarding market and stock movements and its results - positive or negative - is crucial for the communication strategy, as the public distrust may be fatal.

The new financial communication strategy must strike a balance between company's obligation to be responsible and the need to have available the necessary time to build realistic messages. At the same time, transparency in communication must neither create nor increase amongst the public the feeling that the company is in a critical situation and it is forced to take the extreme measures[7].

The consulting firm Ernst&Young conducted a study on the challenges that must respond to the financial communication in the new economic environment created by the global crisis, and was led to the following conclusions[8]:

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[4] Olivier Biraud and Yann Le Fur, "Les vecteurs de communication financière", http://www.vernimmen.net/ftp/article300999.pdf

[5] Monica Cercelescu, "Comunicarea financiară, la momentul adevărului", *Săptămâna Financiară*, (November 21, 2008): 21.

[6] Monica Cercelescu, "Nevoia de transparenţă impulsionează comunicarea financiară", *Săptămâna Financiară*, (September 12, 2011): 23.

[7] Marcia W. DiStaso, "Effective Financial Communications during the Economic Crisis. Lessons Learned from 13 Financial Communicators", *The Measurement Standard*, (April 20, 2009).

[8] Ernst&Young, "The financial communication challenge", *In Sights for European Audit Committee Members*, 9 (November 2009), http://www.ey.com/Publication/vwLUAssets/InsightsEurope09_TheFinancialCommunicationChallenge.pdf/$FILE/InsightsEurope09_TheFinancialCommunicationChallenge.pdf

- *the financial stakeholders want a cohesive story about company performance*

The public is no longer satisfied with simple financial results but also requires a detailed and clear presentation of the activities and future performance of the company. It is not needed abundant information, but their presentation in a concise, accurate, coherent and transparent matter, so that people could understand and interpret: "... there is a focus [now] on what's behind the numbers and [a desire to know] what management didn't know before the crisis"[9]. Therefore it is necessary that the financial results to be presented not only in terms of immediate perspective, but also to be framed in a relevant context. In order to meet these requirements there should be known not only the instruments – reports, presentations and press conferences – but also the overall situation, the public's expectations, the evolution of the industry and competitors[10]. Also, the information on transactions, mergers and acquisitions require much more attention regarding its approach.

We shall provide below several examples of companies which have understood that it is crucial to highlight in the corporate and the financial communication, the key factors of success, in order to provide the concerned public an accurate and clear image of the present and future results and activities of the firm.

The Danish company *Novozymes*, which is doing business in the field of industrial products, highlights the direct and indirect impacts of sustainability initiatives on financial performance in its annual report. The Group presents graphics to outline trends across key financial and non-financial indicators (like turnover, operating profit, or eco-productivity index for water and energy) over the last five years and discusses the wider financial and environmental benefits of improving production efficiency. Clear quantifiable sustainability performance targets for the coming year are also provided. Furthermore, having summarized the Group's business and key product categories, charting market share against competitors, the report expands on each product category using charts to illustrate product uses, market trends and anticipated long term annual sales growth[11].

The US financial group *Wachovia*, for each financial and non-financial strategic priority (such as revenue growth, expense efficiency, customer loyalty, employee engagement, corporate governance, and merger integration) reports related management actions and quantifies success. Its annual report provides an overview of the group's competitive environment, focusing on the trend of industry consolidation and presents summary quantified data by US state including market share and number of facilities. The report also sets out the key, quantifiable, economic assumptions used to develop the Group's financial outlook for the forthcoming year and describes how the Group's diversified business model is driving growth[12].

- *audited financial statements are a core building block*

The financial statements verified and confirmed by experts represent an essential part of the financial communication. For investors, audited financial statements represent a guarantee of the company's financial health; and for the analysts, they are analysis patterns for business performance, enabling consistent and realistic comparisons between companies.

- *other parts of the story are increasingly important*

The complexity of the financial reports and adjustments used by companies for the disclosed financial data have increased the importance and relevance of new instruments of financial communication, like: management's analysis of company performance, data on the key operational performance metrics or management's forecasts or guidance on future performance. Equally important for the new financial communication are the supplementary materials provided by companies to analysts and the discussions that the analysts have directly with investors, journalists, analysts and rating agencies representatives. We must not forget here the new media sources (blogs, tweets), whose influence on individual investors is increasing.

- *some elements of the story are not well told*

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[9] Ernst&Young, 3.

[10] Cercelescu, "Nevoia de transparenţă impulsionează comunicarea financiară", 23.

[11] PricewaterhouseCoopers, „Good Practices in Corporate Reporting. Novozymes A/S", Website *PWC Corporate Reporting*, http://www.corporatereporting.pwc.com/uk/trends/trends.nsf/id/DZGY-6JUJSE/$file/PwC_WEB_Novozymes.pdf

[12] PricewaterhouseCoopers, „Good Practices in Corporate Reporting. Wachovia Corporation", Website *PWC Corporate Reporting*, http://www.corporatereporting.pwc.com/uk/trends/trends.nsf/id/BMCN-6K3FM5/$file/PwC_WEB_Wachovia.pdf

The current economic environment makes the transparency its keyword: “gone is the time for managing the message. Instead, full disclosure is a better approach”[13]. There are two main areas in which the global crisis has shown that it is needed a better and more accurate management information: the risk side of the story and corporate governance factors.

The volatility of information is a feature of the contemporary business environment which burdensome the task for managers and determines a high risk of forecasts. What it is communicated today, tomorrow it may not be valid or it might be exactly the opposite. Therefore the forecasts have become highly risky so that the optimistic statements of some companies managers may become ridiculous over only a few weeks. A revealing example in this regard is that of *Automobile Dacia* in Romania: the general manager, Francois Fourmont declared in October 2008 that although the automobile market is in crisis, they couldn't talk about a real crisis within the company. He has argued that the economic pattern given by the price/quality ratio makes is less vulnerable to the crisis. A few days later, the manager of *Dacia* was declaring that in the world financial economic crisis circumstances, the second-hand import had strongly affected the activity of the car making companies in Romania. Then followed news of the temporary closure and production suspension to adjust demand/supply ratio[14].

Nevertheless the audience requires information about the associated risks of the carried out or foreseen activities to be accomplished by companies, and this is mainly possible within face-to-face meetings between company's management board and investors or analysts.

- *there is a debate about the role of the audit committee in reviewing the story*

For drafting the financial statements, the audit committee must decide which are the key performance indicators that best express the company's long-term value. In order to achieve this, there should also be transparency between the internal relations of the audit committee and the management team. Thereby, an efficient and transparent corporate communication can be established, which could offer the audience the motivation to invest or convey a positive image of the company.

The communication transparency is the key-word again. Moreover, mindful of the importance and consequences of the communication transparency in the financial market, since 2004 the European Union has adopted the *Transparency Directive*, which was modified in 2007[15], and whose main objective consisted in providing a better protection of the investors and to ensure the market’s efficiency within the borders of the European Union: “the disclosure of accurate, comprehensive and timely information […] builds sustained investor confidence and allows an informed assessment of their business performance and assets.”[16]

Members of the European Audit Committee Leadership Network[17] consider that “the role of audit committees in reviewing the financial reports of their companies has increased over the last years, often prompted by the passage of new EU and US regulations. Company practices, however, continue to show a great deal of variability in approach. Some of these variations are attributable to

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[13] Ernst&Young, 10.

[14] “Fourmont: Nu se poate vorbi de o criză la Dacia”, *Wall Street*, (October 31, 2008), http://www.wall-street.ro/articol/Auto/51973/Fourmont-Nu-se-poate-vorbi-de-o-criza-la-Dacia.html; Cristian Gubandru, “Anul 2009 pentru Dacia în 60 de secunde”, *Wall Street*, (December 21, 2009), http://www.wall-street.ro/slideshow/Auto/77173/Anul-2009-pentru-Dacia-in-60-de-secunde.html

[15] Commission Directive 2007/14/EC, *Official Journal of the European Union*, (March 8, 2007), http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2007:069:0027:0036:EN:PDF;
Directive 2004/109/EC of the European Parliament and of the Council, *Official Journal of the European Union*, (December 15, 2004),
http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2004:390:0038:0057:EN:PDF

[16] Directive 2004/109/EC, 1.

[17] European Audit Committee Leadership Network is a forum founded in 2004 that brings together directors from European Union member states and non-EU countries such as Finland, Russia, and Switzerland to discuss corporate governance and board leadership. Its members are committed to explaining the work of audit committees in dialogue with stakeholders like the European Commission, the International Accounting Standards Board, national regulators like France’s Autorité des Marchés Financiers, and the investment community.

differing national corporate governance codes and board structures"[18]. In order to remove some of these inconveniences, the European Commission supported the need for harmonization of the Member States' legislation regarding the information to be periodically provided by companies: "greater harmonization of provisions of national law on periodic and ongoing information requirements for security issuers should lead to a high level of investor protection throughout the Community"[19].

The main consequences of the implementation of the *Transparency Directive* are:

- setting out of requirements regarding the annual financial report of the company (the directive introduces requirements into securities law concerning the annual financial report. Until now this has been a matter of company law, although some member states and exchanges have imposed additional disclosure requirements);
- improvements in periodic reporting: half-yearly reporting and quarterly reporting (disclosure requirements in the form of an interim management statement, which shall provide an explanation of material events and transactions that have taken place during the relevant period and their impact on the financial position of the issuer and its controlled undertakings, and a general description of the financial position and performance of the issuer and its controlled undertakings during the relevant period).

Considering the European directive, a retail company might provide some or all of the following information[20]:

- material events and transactions, such as: refinancing; acquisitions or disposals; opening of new distribution centres or new stores; adoption of a new strategy, such as exiting or entering markets.
- narrative around performance, incorporating key operating statistics, such as: percentage change in total sales by segment; percentage change in like-for-like sales by segment. Some companies might opt to give more extensive disclosures, such as: progress against announced store opening, conversions to new formats; deflation or inflation in the supply chain, for example, due to higher energy costs; extension of product range; number of customers served.
- narrative around financial position, such as: adequacy of financing in place to service acquisition plans or major store refurbishment plans; adequacy of working capital.

To conclude this section on the financial communication of firms, it seems relevant to present the means that can best meet the new demands of the proper communication strategy in the current economic context marked by the global effects of the crisis, from the perspective of those directly involved – the financial communicators:

- presentation of additional information from reliable sources which support the message sent by the company: third-party endorsers (independent auditors and customers), quality studies (Voice of the Customer surveys), and ratings from ratings agencies (Standard & Poor's and Moody's);
- usage of websites in order to deal with the clients first-hand and posting online the letters from the CEO which refer to the company and the economic environment in which the company operates;
- cooperation with the firm's management team in order to offer a clear perspective about the company's activity to mass media;
- usage of creativity in order to attain the interest of specialized journalists in non-economic matters (which increase the value of the company in the audience's eyes), integrating economic non-financial topics such as products, services, events, community work, white papers, and customer testimonials[21].

Financial communication of central banks – monetary policy instrument

Communication plays a key role in the formation and implementation of the monetary policy through its ability to increase the degree of decisions' predictability and to diminish the market's insecurity. If several years ago, transparency was not considered to be essential for central banks

[18] European Audit Committee Leadership Network, "The audit committee role in financial communication," *View Points*, 20 (May 8, 2009): 2, http://www.tapestrynetworks.com/documents/Tapestry_EY_Euro_ACLN_May09_View20.pdf

[19] Directive 2004/109/EC, 1.

[20] PricewaterhouseCoopers, "The EU Transparency Directive", *Periodic reporting requirements*, (July 2007), http://www.pwc.com/en_GX/gx/ifrs-reporting/pdf/transparency.pdf

[21] DiStaso, "Effective Financial Communications during the Economic Crisis. Lessons Learned from 13 Financial Communicators", *The Measurement Standard*, (April 20, 2009).

communications, today, just like in the business area, it has become a vital characteristic of financial communication in this area, especially due to the predicaments caused by the financial crisis.

For a bank, transparency is not a purpose itself as its primary objective isn't communication with the public, but to maintain price stability or a low inflation rate. Therefore, the central bank's strategy is focused on the need to fulfil its mandate, so it subordinates transparency to the fulfilment of its primary objectives. This is how in the past central banks have justified their reluctance to send information towards the public and highly criticized their „aura of mystique"[22]. If we consider banks to generally communicate through two means, actions and words, we notice that in the past, actions had a higher degree of significance than words, as central banks used to speak only in extreme cases. The information transmitted to the public concerning the changes in monetary politics was indirect and incomplete. Nowadays, words are attributed more importance, so actions and words are these days used together, in order to help the sender (the central bank) strengthen the clarity and credibility of its message[23].

Over the past years, central banks have improved their strategy and the manner in which they communicate the decisions concerning the monetary policy, as a consequence of the newly found circumstances on the international market: a global trend towards greater central bank autonomy, which has been accompanied by a corresponding demand for greater democratic accountability and transparency, and a growing consensus among monetary economists that better communication about central bank actions is essential in reducing the uncertainty facing economic agents and that clearer communication enhances the effectiveness of monetary policy[24]. According to Lucas Papademos, former vice president of the European Central Bank (ECB), "it is widely recognized that increased transparency and enhanced communication are essential and beneficial ingredients of an effective monetary policy". And the reasons which are supporting his statement are "the democratic legitimacy of independent central banks, the efficient functioning of the economy and the effectiveness with which monetary policy can attain its objectives". That is why "the majority of central banks have steadily increased their degree of transparency and have placed greater emphasis on communicating their objectives, assessments, actions and intentions"[25]. At his turn, FED Chairman Ben Bernanke said that increased transparency benefits society and the economy in two important ways: first, "good communications are a prerequisite if central banks are to maintain the democratic legitimacy and independence that are essential to sound monetary policymaking", and second, "central bank transparency increases the effectiveness of monetary policy and enhances economic and financial performance"[26].

Today, there is a general consensus among central bankers that transparency is not only an obligation for a public entity, but also a real benefit to the institution and its policies[27]. "The guiding principle is that transparency should allow the public to understand, and possibly anticipate, the central bank's decisions, to see each of them as the logical conclusion of a chain of past and future decisions aimed at a clear set of targets"[28]. The more convincing the banks are in explaining the conditions and reasons that are the foundation of their decisions, the more effective their monetary policy is.

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[22] Otmar Issing, "Communication, Transparency, Accountability: Monetary Policy in the Twenty-First Century", *Federal Reserve Bank of St. Louis Review*, 87 (Part 1), (March/April 2005): 68-69, https://research.stlouisfed.org/publications/review/05/03/part1/Issing.pdf

[23] Serge Jeanneau, "Communication of monetary policy decisions by central banks: what is revealed and why", *Bank for International Settlements: BIS Papers* 47 (May 2009): 11, http://www.bis.org/publ/bppdf/bispap47.pdf

[24] Alan Blinder, "Talking about monetary policy: the virtues (and vices?) of central bank communication", *Bank for International Settlements: BIS Papers* 274 (March 2009): 1-2, http://www.bis.org/publ/work274.pdf; Jeanneau, 1

[25] "Monetary policy communication and effectiveness", Speech by Lucas Papademos, vice president of the ECB, at the Annual Meeting of the Allied Social Science Associations, New Orleans, 5 January 2008, Website *European Central Bank*, http://www.ecb.int/press/key/ date/2008/html/sp080105_1.en.html

[26] Ben Bernanke, "Federal Reserve Communications", (November 14, 2007), Website*Board of Governors of the Federal Reserve System*, www.federalreserve.gov/newsevents/speech/bernanke20071114a.htm

[27] Issing, 66.

[28] Alan Blinder et. al., "How Do Central Banks Talk?", *Geneva Report on the World Economy 3*, Geneva: International Centre for Monetary and Banking Studies (2001): 16.

Therefore, central banks have begun to publish information about their strategy, the analysis they had performed and the decisions they make, trying to offer this information in a clear and coherent way so as to make it as accessible and as easy to understand as possible for the interested audience. This way, the bank can justify its actions.

Central banks' financial communication generally comprises five categories of information: the interpretation of current economic conditions, the outlook for the economy and the associated risks, the reasons for policy decisions, the strategy that guides those decisions, and the outlook for future policy, given the objectives of the central bank and the economic outlook[29]. And for it to be effective, this information needs to contain the set objectives (for instance, to clearly state the inflation or exchange rate that the bank is aiming at), methods used to attain these objectives (for forecasts or for the implementation of the monetary policies changes) and decisions made in the past or predictable in the future[30].

The target audience of bank communication

The global crisis has led to the increase of the importance of certain receiver categories for central banks' financial communication: the public at large (citizens), mass-media and political actors.

Regular people, although not very interested in the monetary policy and in the way the bank representatives communicated through specific and difficult to understand terms by those who don't belong to that particular area of expertise, are extremely sensitive to price changes, information about exchange rate and an increasing inflation rate. Eventually, people end up considering national banks to have a major role in the development of governmental policies that affect economic growth and employment. Therefore, banks need to build communication strategies that are capable to create and maintain the feeling that they are competent and aware of citizens' needs within the audience at large. The high degree of acceptance of the central bank of Germany, Bundesbank, by citizens is connected to its successful efforts to find the most efficient ways to talk and be understood by the audience at large[31].

In order to achieve these results, the central banks need to use all available communication channels. The main communication channels used are the policy-making committee and the institution's individual members.

The first instrument may include statements commenting and explaining decisions on meeting days but also publications in the inter-meeting period such as minutes of past meetings or Inflation Reports and Monthly Bulletins. Many central bank committees, including those of the Federal Reserve, the Bank of England and the European Central Bank, in general make statements at preannounced dates, usually using a standard format in terms of language and structure. The US central bank, Federal Reserve issues a statement explaining its policy decision on its meeting days, also offering a balance-of-risks assessment about its views of underlying risks to inflation and to the economic outlook. The Governing Council of the ECB provides an introductory statement followed by a press conference, where the President and Vice-President answer additional questions from the media. The Bank of England often does not provide any explanatory statements when it announces decisions that monetary policy rates remain unchanged. Each of the three committees provides some additional information during the inter-meeting period: Federal Reserve and Bank of England publish the Minutes, the ECB publish its Monthly Bulletin. More other, additional important publications offered by central banks are the quarterly Inflation Report by the Bank of England, the Beige Book by the Federal Reserve and the Annual Report by the ECB.

The communication by individual committee members – through testimonies, speeches and interviews - is highly influential as it may provide more detailed information, in particular about the diversity of views and the discussions in the committee, and is usually far more flexible in its timing and content than the statements by the committee itself[32]. The move of many central banks over the

[29] Jeanneau, 7.
[30] Blinder et. al., "How Do Central Banks Talk?", 16-17.
[31] Blinder et. al., "How Do Central Banks Talk?", 26.
[32] Michael Ehrmann and Marcel Fratzscher, "How should Central Banks communicate?", *European Central Bank Working Paper Series*, 557 (November 2005): 9-10, http://www.ecb.europa.eu/pub/pdf/scpwps/ecbwp557.pdf

past decade towards greater transparency as well as decision-making by committees has implied that communication through individual committee members has become increasingly relevant[33].

Another important component of the target audience is the media, especially the one that is addressed to the educated public. The tools used by central banks to communicate with media are: press conferences, press releases and interviews, through which are transmitted the analysis results and the financial data. All central banks have created websites that publish detailed information for the specific public.

If the communication with the economic media is natural and easy to perform, the challenge occurs in the case of the communication with non-specialized media and through it, with most of the citizens. Considering that the non-financial media journalists must create and maintain the public interest in a technical nature subject, it is important that the bank's messages are simple and clear and not leave room for interpretation. This is especially the case with television, the most influential of all media, where few minutes, often seconds, are devoted to any piece of news. The resulting vicious circle – from rarefied communication to lack of interest and understanding and back to scarce information-is obviously hard to break[34].

Given all these challenges, exacerbated by the global financial crisis, the central banks have to emerge from the shell in which they were isolated and learn to communicate with different audiences through media, to be convincing in their message so that their future decisions and actions will not be contested.

The political actors are very interested in monetary policy, since it has a major impact on inflation and economic activity. And as the economic circumstances of a country plays a decisive role in elections, both the government and the opposition have their own views on how it should behave with the National Bank. The extent to which the politicians can influence the monetary policy varies depending on the degree of central bank's independence and autonomy, although the studies have shown that even in Germany, which has one of the most independent central banks, has forms of political manipulation of the monetary policy[35].

Irrespective of the form of institutional organization, transparency is what ensures and strengthen the bank's independence from politicians. The more transparent communication, the least the bank will be a subject to the political pressure of the government[36].

Banks' communication strategies

A survey conducted by the European Central Bank experts on communication strategies of three major banks in the world - the Federal Reserve, the European Central Bank and the Bank of England - has shown that there are differences between the way they communicate information and the efficiency of the communication in drawing decisions and achieving the monetary policy objectives set out in the mandate. The paper has shown that "the Federal Reserve is following a more *individualistic communication strategy* in that there is a high degree of dispersion in what the individual Federal Open Market Committee (FOMC) members say. The decision-making process by the FOMC, however, is collegial in that most decisions are made unanimously. By contrast, the Bank of England has been pursuing a more *collegial communication strategy* but at the same time has also a highly individualistic approach to decision-making as the majority of Monetary Policy Committee (MPC) decisions has not been made by consensus. Finally, the approach chosen by the European Central Bank is again fundamentally different by being collegial throughout both in its communication strategy and in its approach to decision-making"[37]. The strategy of "single voice" chosen by the ECB is based on the principle that "a collegial communication can provide greater clarity and common understanding among the public", while "the predictability of monetary policy decisions, as well as

[33] Michael Ehrmann and Marcel Fratzscher, "Communication and decision-making by Central Bank committees. Different strategies, same effectiveness?", *European Central Bank Working Paper Series* 488 (May 2005): 5, http://www.ecb.int/pub/pdf/scpwps/ecbwp488.pdf

[34] Blinder et. al., "How Do Central Banks Talk?", 23.

[35] Alberto Alesina, Gerald D. Cohen and Nouriel Roubini, "Macroeconomic policy and elections in OECD democracies", *Economics & Politics*. *Harvard University's DASH Repository* 4, 1 (1992): 14-16, http://dash.harvard.edu/bitstream/handle/1/4553023/alesina_macroeconomicoecd.pdf?sequence=2

[36] Blinder et. al., "How Do Central Banks Talk?", 23-24.

[37] Ehrmann and Fratzscher, "Communication and decision-making…", 28

market volatility, are affected by more divergent communication among central bank committee members"[38].

The study also analyze show these strategies succeed to provide the efficiency of communication and concludes that "a collegial approach to communication and decision-making as practiced by the ECB should lead to highly predictable policy decisions, and should imply that markets react to statements by all policy-makers in the same fashion. An approach as followed by the Federal Reserve, where communication is dispersed but voting is consensual, makes a central bank predictable if markets are able to figure out whose statements to watch closely. Finally, […] an approach as followed by the Bank of England, where communication is collegial yet voting is highly dispersed, runs the risk of being less predictable, and might imply that financial markets do not react to communication as strongly as for the other central banks"[39].

The effects of these communication strategies can be better analyzed through financial market reactions. The financial market actors attach importance to this communication because the received information allows it to help them take better decisions on the market in anticipation of future monetary policy decisions.

The financial markets' reactions to communication confirm the study's hypothesis. The U.S. markets react much more strongly to the statements of the EDF President than the releases of other members of the FOMC, while Euro area markets respond equally to releases from the ECB President Council members. The study concludes that approaches on communication adopted by the FED and the ECB ended with the same success, despite the different strategies that have followed. This fact demonstrates that it is possible that there isn't a unique approach, a most appropriate communication strategy and decision making in a central bank[40].

Regardless of the chosen strategy, all three banks have understood the importance of transparency, clarity and fairness in communication. As with the private sector, examined in the first section of the paper, the central banks must also provide the information and the decisions taken from the perspective of not only immediate, but to highlight the long-term effects of decisions. The specialists that are sustaining the transparency of the financial communication consider that this increases the efficiency of the monetary policy. These ideas, most recent in specialized literature and dedicated to the way of how banks communicate have also been adopted in practice.

The US central bank Federal Reserve began a long march toward greater transparency in February 1994 when its committee, FOMC, first started announcing its decisions on the federal funds rate target. A few years later, it began announcing FOMC votes-with names attached-immediately after each meeting. In February 2005, the FOMC expedited the release of its minutes to make them available before the subsequent FOMC meeting. Starting in November 2007, the FED has increased the frequency and expanded the content and horizon of its publicly-released forecasts[41].

The degree of transparency practiced by the world's central banks varies considerably. The European Central Bank has one of the most transparent policies, characterized by the ECB president's press conference held after each policy meeting. Although it has a much less transparent policy than ECB, the FED has also made a considerable progress, as we saw above. The FOMC decision to release quarterly economic projections represented a key innovation in helping the private sector to form judgments about the bank's future actions. For example, when the new economic projections were released on November 2007, they indicated that FOMC policymakers had become modestly less optimistic about real GDP growth in 2008 compared with three months earlier[42].

In order to reach this high degree of transparency, the ECB has adopted a variety of communication channels: monthly press conferences; the ECB's Monthly Bulletin; presentations of the annual report made by the ECB president before the European Parliament plenary and quarterly meetings with the Parliament's Committee on Economic and Monetary Affairs to explain the ECB's

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[38] "Communicating monetary policy to financial markets", *ECB Monthly Bulletin* (April 2007): 69-70

[39] Ehrmann and Fratzscher, "Communication and decision-making…", 29.

[40] Ehrmann and Fratzscher, "Communication and decision-making…", 30.

[41] Alan S. Blinder et.al., "Central Bank Communication and Monetary Policy: A Survey of Theory and Evidence", *Journal of Economic Literature* 46, 4 (American Economic Association, December 2008): 912.

[42] Kevin L. Kliesen, "Recent Changes to the Fed's Communication Strategy: Loud and Clear?", *Central Banker*, Federal Reserve Bank of St. Louis, (Spring 2008): 5, http://www.stlouisfed.org/publications/pub_assets/pdf/cb/2008/cb_sp_08.pdf

policy decisions and to answer questions by Committee members; speeches and interviews with Governing Council members for explaining the ECB's view to the public; visits received by ECB from members of the general public and experts from various institutions; dialogue with academic world through expert conferences and seminars; and statistics that use data collected with the help of national central banks[43].

The ECB's experts consider that the bank's communication strategy and the transparency of its monetary policy-making have proved particularly useful in the actual period of financial distress. The intensification of the ECB's external communication since the onset of the crisis in August 2007 has had a discernible impact on financial markets: the markets seem to have been more responsive to the ECB's press conferences during the crisis than appears to have been the case before[44].

Other central banks have also become remarkably more transparent in the last twenty years and are placing much greater weight on their communications. To support this statement, good examples are: the Reserve Bank of New Zealand and the Bank of England, which were early and enthusiastic converts to greater transparency, or the central bank of Norway and the central bank of Sweden[45]. Modern central banks employ a variety of communication channels, such as press conferences, bulletins, speeches or minutes, that aim to enhance the transparency, and hence also the effectiveness, of monetary policy within a well-defined communication strategy. This requires a central bank to provide in an open, clear and timely manner all relevant information on its mandate, strategy and the rationale underlying its policy decisions to the general public and financial markets[46]. All these prove that a more extensive central bank communication is truly a worldwide phenomenon.

Conclusions

Today, financial communication is done by completely new coordinates, very different from those used just two decades ago. The informed and very aware of its needs and wishes audience is extremely sensitive to the market dynamics and the companies' behavior. Therefore, transparency is a widely-used word both in the business environment and in the financial world. The global crisis has increased this audience sensitivity, audience that needs to live in an uncertain world and to act on a volatile market, with risky and unpredictable evolutions.

In this context, the companies' financial communication, which was not too long ago considered just for legal purposes, has come to the foreground of the communication strategy, as it has the ability, if well done, to attract and keep the audience's interest and to offer warranties in order to win their trust. The audience that this communication is targeting is no longer made up from investors bankers, or other financial institutions, but it is completed by unspecialized media and the audience at large, which looks for answers to questions like: how affected will they be by the economic instability and what they should do. Therefore, the language, the content, the forms and manners of sending out these financial messages had to be "reinvented" in order to respond as coherent and as good as possible to the expectations of these new audience categories, far more unpredictable and more "dangerous", due to the fact that their behavior and actions can dramatically influence the image and long term results of the company.

The international financial crisis from the last few years has determined even the central banks to intensify their efforts to improve the communication with the audience. Thus, we can observe that many banks nowadays offer a larger amount and more precise information about the monetary policy, over regular periods of time.

If transparency is the key word if the banks' behavior in the period, communication is essential in order to ensure this transparency. "Accordingly, central banks are now placing more emphasis on communicating directly with the public than in the past. In turn, this has affected all facets of communication, such as the announcement and clarification (and often quantification) of a central bank's objectives, the announcement and explanation of monetary policy decisions and the communication of the central bank's current assessment of the economic situation and its outlook"[47].

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[43] European Central Bank, *Communication*, http://www.ecb.int/mopo/strategy/comm/html/index.en.html
[44] "Central bank communication in periods of heightened uncertainty", 78-79.
[45] Blinder et. al., "Central Bank Communication and Monetary Policy: A Survey of Theory and Evidence", 913.
[46] "Communicating monetary policy to financial markets", 62.
[47] "Communicating monetary policy to financial markets", 61.

The concern for a transparent and efficient financial communication is amplified by the need to determine the audience to become aware of the fact that a central bank's mandate is limited, so as not to form false expectations that will lead to a decline in the institution's credibility. Thus, the bank needs to inform the audience about what the promoted monetary policy can and cannot do. Hence, communication of the monetary policy objectives represents a fundamental element in the communication strategy of any central bank. Especially given the current circumstances, and the increasing economic instability, the efficient and reliable transparency and communication can contribute to the accomplishment of the compatibility between market expectations and central banks' objectives. More other, "clarity in the central bank's intentions and objectives provides a first anchor of stability and an important sense of direction for economic agents"[48].

The financial crisis has set financial communication in the centre of a trust crisis. Although many investors, clients or even employees had their trust completely crushed, communication hold the appropriate means to rebuild it. But for this to be accomplished, communication needs to be done in time, it needs to be transparent and it needs to explain what happened, what the company does to solve the problems and why their actions are efficient. However, the fundamental provision that ensures the success of this new type of financial communication is fairness and transparency of acts.

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