

THE PARTICULARITIES OF FINANCIAL COMMUNICATION IN THE RETAILS COMPANIES

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Abstract

The communication process plays an essential role in the retail sector and beyond; ever increasing global competition and changes in the behavior of consumers and economic instability, all have caused major retail companies to adopt a manner of external communication that is more complete, efficient and appropriate. The purpose is to increase the effectiveness of activity, both from an operational standpoint, and in relation to customer service, with final objective to manage the available resources in an integrated and systematic manner, towards improving processes and business performance.

Key Words: *reporting entities; voluntary disclosure; mandatory disclosure.*

I. INTRODUCTION

Unlike other retail sectors, the knowledge needs of stakeholders and power of interpretation (not just consumers) is even more important because it is necessary to give "consistent" and credible answers to their inquiries and influence decision making.

It is also important to underline the clear difference between mass communication and required or mandatory communication of retail companies. Mass communication includes the totality of the materials used, which was decided after the image and type of advertising campaign and are mass produced and sent to points of sale, depending on the mass distribution objectives. This activity aims primarily at providing the basic means of communication considered for internationally selected points of sale to support the chain of distributors. But the real problems occurred in the communication process arise with the design and operation of a performance measurement system recorded at points of sale to be able to interpret the key variables of commercial activities.

Sale activity is actually the result of a combination of tangible and intangible variables with a more complex understanding, especially in an attempt to codify and measure "objective parameters". This is also why many retail companies orient their own reporting system on a single variable capable of objective measurement, for instance turnover, and in more complicated cases the commercial margin. At the same time, designing reporting systems aimed exclusively on turnover and commercial margin are of little help in continually monitoring the commercial business. These systems are limited to measuring trading results, but do not allow a full understanding and a proper management, for reason that it is absolutely necessary to extend operational indicators as determinative in assessing retail business results. In the literature dealing with the development of an integrated performance measurement and financial position of the company as reflecting their real value (Guimard 1995; Provasoli, 1989).

II. THE FEATURES OF ECONOMIC AND FINANCIAL COMMUNICATION AND DIFFICULTIES AT A REPORTING ENTITY LEVEL

The expression of economic and financial communication means "transmission of information by management of the company to all users of information, or to certain categories, on the evolution of the company results, of financials, economics and property" (Coda, 1989).

The set of terms used in the economic literature can lead to confusion of the concepts of economic and financial communication, and tend to overlap aspects that should be highlighted separately. In this case, the economic and financial communication can be defined as a necessary tool for obtaining trust (reliability) and consensus on the strategic route that is intended to be followed (Corvi, 1989), and means (or element) of support to achieve business proposed objectives, institutional and organizational.

According to Guatri (1992) and Marosco (1998), financial communication is „any information directed into the external environment susceptible to influence directly, in varying degrees, the share quotation and, in general terms, may consist of updating the available data on the current situation and forecast characteristics of the securities issued by the company”. Also it is considered „part of the information reported, which is expressed through economic and financial documents and find the various types financial statements, their typical expression”.

Issuers of economic and financial communications benefit from an information advantage, or knowledge compared with the receivers; this advantage is generated by the "source" of information that is communicated and which consists in assuming a dominant position in the relationship between the two parties.

Delimitation of this framework is of particular significance on the topic of quality in communicating economic and financial disclosure. The importance of disclosure quality is an essential basis for increasing asymmetry between entities that are required to submit financial and economic information and stakeholders who are excluded from the "source" of information and who are interested in the performance and the management of the company, but especially the performance obtained (Francis & Al, 2004). A high quality of disclosure involves an advantage of "knowledge" held by the issuer to the detriment of the information receiver and also benefits behavior specific to both.

Financial communication has become a crucial element in the communication policy of economic entities, playing a fundamental role in their growth, while functioning effectively in the market with which they interact. In fact, the importance of economic and financial disclosure derives from its very presence as an intermediary instrument between company management and other market participants, foreign investors being taken of them; valence practical economic and financial communication is measured by the increasing intensity of non-monetary information, along with the accounts (Bostan and Grosu, 2010).

The close relationship between information and decision-making of investors underlies the increased importance that businesses have assigned to information, recognizing the practical status as a variable with a fundamental role in decisions to invest (Fiori & Tiscini, 2005). In terms of venture capital investors, information flows are needed both to attract new resources to the firm from potential investors and to persuade and justify the usefulness of investments. For funders capital credit is a function of the information provided guaranteed to obtain financing, helping to direct forms of intervention creditors.

What is desired in this paper is to emphasize that the complexity of communication with the external environment of a company is not guaranteed only with mandatory information that they must report under regulations (Bostan et al., 2008), but it is left to the decision of the management, depending on objectives and strategies set by the company. Significant distinctions are made between different types of communication:

- a. mandatory disclosure derived from legal provisions specifying details and characteristics of transmitting information in order to protect third parties and to ensure the confidence of various stakeholders;
- b. voluntary disclosure that is not explicitly required by normative sources, but each entity is proposed to clarify issues that come to complete mandatory disclosure.

It is widely known that in order to meet the interests and needs of users of financial and economic information every country has its own system or regulatory framework imposing firms operating on its territory to report such information as obligatory (Bostan, Burciu and Grosu, 2010); But in addition, each entity in turn decides providing further information, additional to some extent remain at the discretion of management to determine the content and specific means of communication.

Regarding the non-monetary and non-quantitative information that lately became subject to different forms of communication, it provides clues through their communication signal over the general orientation adopted by management (Grosu and Socoliuc, 2008). Voluntary disclosure can therefore be interpreted as any form of dissemination of information, at the discretion of management, in excess of the legally required information, the accounting rules and in case of listed companies, international rules governing the interactions of the capital market (Healy & Palepu, 2001) in order to "take advantage" of credibility and trust recognized the compulsory communication to give greater power and capacity to attract attention, even through information deemed so-called "voluntary" (Quali, 2005).

Regarding the subject of voluntary disclosure, certain key elements have been identified whose value may vary depending on mandatory disclosure and financial reporting related to:

- a) Deepening the causes underlying economic and financial dynamics that lead to increased analytical information provided. For example, the company's activity can be decomposed into partial aggregates such as strategic business areas, sectors, geopolitical areas (or market), cash generating unit, etc., so as to reflect the result, different from as set out in the regulatory framework of reference, this part of the voluntary disclosure. One can also measure future performance through technical and physical indicators, already used within management control, whose role is to facilitate communication and deepen understanding by stakeholders of the causes underlying economic developments financial entity (Bozzolo, 2005). These last indicators, compared to the financials, are characterized by that they have greater discretion over those forced to represent economic reality;
- b) Extending the period of performance content, meet an increasingly elevated requirement of the stakeholders, not necessarily accounting data and information, but considered inherent in the economic behavior of the firm, such as the problem of protecting the environment or interventions in the social sphere. These requirements are published by the entity through so-called sustainability reporting, a document containing information on social and environmental issues;
- c) Extending the reference period, is intended to reflect the importance attributed to predictive information. Includes information that are distinguished from the information in financial reporting, and usually offer a final view on business activity.

The increasing importance of non-accounting communication (narrative disclosure) has been recognized both by the international literature and by normative frameworks (international, EU and national). Empirical studies published internationally on the subject of disclosure, aroused the interest of many authors, being focused

on the determinants of its quality level, such as the effects of a wider disclosure of agency cost reduction; relation between corporate governance structure of the entity and its policy of disclosure.

There are also numerous studies in which significant informational potential is recognized in the new form of reporting through which data and forward-looking information is transmitted compared to traditional reporting formats, which is based only on historical data, quantitative and financial (Beatty, 2004; Clatworthy & Jones, Lev, 2005, Bostan et al. 2008). In this regard, a study made by Arthur Anderson between 1996 and 2001, demonstrated increased importance given to narrative disclosure, increase due to the fact that it has achieved greater "weight" in English Annual Reporting related companies, which in turn led to the presentation of a substantial increase in the number of pages dedicated to the explanatory information (narrative), from 45% in 1996 to 57% in 2001.

There are various reasons that may cause an entity to integrate mandatory communication with the voluntary one because the voluntary nature reduces information asymmetry and agency conflicts that are created between management and investors (Davis et al, 2008). Information asymmetry reflects the differences between the different information and thus lead to stimulation of conflict between the entity and investors may lead forward to a break in the proper functioning of the capital market (Akerlof, 1970). Agency conflicts instead reveal conflicts between management and investors because management interests may not coincide with the interests of shareholders and creditors, as they may not always act to protect the latter.

In this case, the role held by discretionary disclosure is not only to overcome or solve the problem of information asymmetry; managers intend rather to address information "gaps" between the entity and outsider, involved in relationships oriented to influence the perception of stakeholders to achieve their objectives.

This derives from the fact that the company's performance cannot be determined directly, which is why investors should rely on his own assessment of the creditworthiness and performance management company, at least in part on reports that are prepared by management (Date , Kulp & Lambert, 2001).

Basically, the quality of information transmitted no longer translates through communication of generic information, but concerns explaining and commenting the performance issues that are important to the market. Narrative disclosure is much more sophisticated and characterized by a more detailed description, so its role in the documents reported only extra is but one complementary to quantitative information. There are numerous studies (Fritsch & Schilder, Roll, 1988, Mitchel & Mulherin, 1994) according to which quantitative information on the financial position and results of the company, explains in part the movements in the value of assets held, which demonstrates the importance of the quality level of the disclosure.

Unlike the situation where discretionary disclosure help provide information to improve decision-making processes of investors in order to overcome the problems caused by information asymmetry, which is why many authors consider that discretionary disclosure could be used for the adoption of an "opportunistic behavior" of the management.

If the company's goal is to mobilize the necessary resources for its work, it must ensure a quantity and quality of information reported so that they create an attractive economic picture that can be appreciated in the market in which the entity operates.

However, in relation to stakeholders entity may adopt manipulative behavior through which it tries to persuade them to take decisions consistent with management objectives. Therefore, it can create situations of impaired communication company oriented to influence user perceptions over economic and financial information, either directly, by manipulating the financial statements or other information communicated indirectly through manipulation. The ultimate goal is to improve the practical content, or change the "feel" forwarded to create a more favorable perspective, so-called self-interested view, the concept of firm performance (Jones & Hill, 1992).

III. THE RETAIL ACTIVITY WITHIN THE BUSINESS SYSTEM

Unlike other types of companies, retail ones must manage a substantial amount of information, ranging from suppliers to customers and, from the employees to inventory data. Each interaction of this type generates a new challenge for these companies, but suppliers are a business partner whose interests should not be ignored.

The business intelligence and analytics model (Pasini, 2014) for retail companies can become useful not only for points of sale, but also for supplier firms, given that the supplier is permitted to consider the benefits of their products, allowing themselves to fix prices, discounts or other specific decisions. At the same time the importance of the geographical area is essential for firms operating in this area, because when retail point of sale or have multiple locations, all must be organized as an individual business.

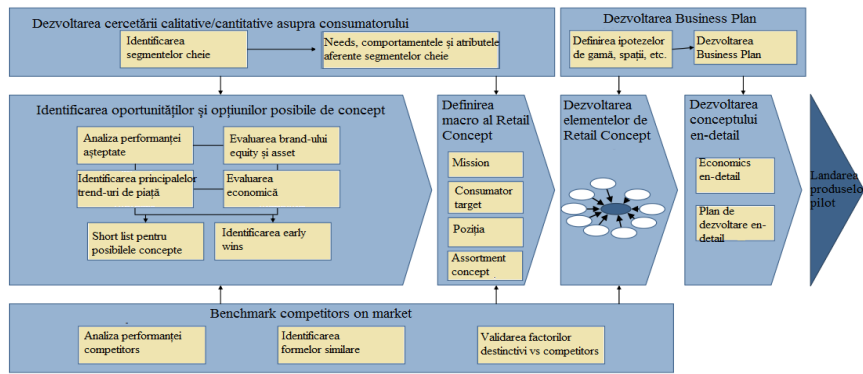


Figure 1. Key stages in developing the retail concept

Source: *La definizione e la messa a punto degli elementi chiave di un retail. Concept di successo: i passi chiave, Milano, 2006, Istituto Internazionale della Ricerca*

Managers can benefit from information transmitted through the system of reporting, sales situation for every point of sale, the stocks, margins and process optimization. It must be noted, however, that the economic literature has proposed using the concept of industrial retailer (Guarcini, 2005) to distinguish between purely typical grocery retail sectors.

In this category, even if the distributor proposes products with trademarks, characterized by a brand, ultimately it remains purely retail. The innovative dimension of a product still remains inside the remit of an industrial company. On the other hand, is extremely complex for a grocery distributor to manage the process of innovation and production of numerous and heterogeneous categories of goods that make up the range of stocks at the points of sale. The figure below shows the main features found in retail organizational systems of industrial countries, identifying retail skills, competencies and product design skills. It is clear that to the extent to which the share of multi-brand sale outlets is higher, we face an "industry" of retail and not an industrial retail as managers of retail outlets is less central to the industrial R&D. The phenomena of internationalization of retail activity concern both the industrial retail and the retail sector.

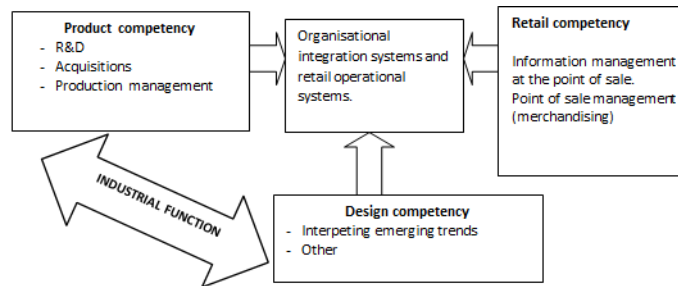


Figure 2. Industrial competency integration by the retail sector

Source: *Adaptation over Andrea Runfola, Apprendimento e reti nei process di internalizzazione del retail, pg. 84, University press, Firenze, 2012.*

The activity has become more and more a fundamental and indispensable element in the success and development of a company's competitive advantage on its own reference market. It is clear that the strength derives from retail and brand as the product develops leading to a system that reinforces the company strategy in order to promote the brand. Thus retail becomes a competitive tool in enhancing strategies stockings can do to grow brand value and reputation, enriching it in content and meaning.

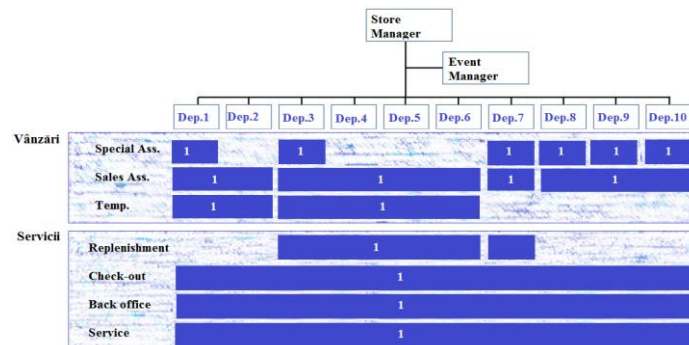


Figure 3.: Developing the retail concept / Personnel at the point of sales

Source: *La definizione e la messa a punto degli elementi chiave di un retail. Concept di successo: i passi chiave, Milano, 2006, Istituto Internazionale della Ricerca*

The most important step is to define the role of the retail business but the overall brand strategy is then possible to identify and summarize the three main roles of retail for the brand, namely:

- Adding value brand and cognitive skills;
- Adding other additional values;
- Achieving a small target in a manner to enhance the relationship between the three roles.

In this case the retail business will generate results for becoming a profit center in each point of sale, for both tangible and intangible assets owned by the company.

IV. THE PROCESS OF INTERNATIONALIZATION AND MULTINATIONAL RETAIL COMPANIES

In the current economic climate the retail business is characterized by the presence of multinational companies that have aggressive strategies and policies, both in areas where they operate and aim to achieve an extensive market niche and in emerging countries where they aim to gain a market share due to the increased demand. The objective of this analysis carried out between retail companies listed on the BSE and listed on the Milan Stock Exchange is to highlight the effects of internationalization of these types of companies and how they manage to communicate with shareholders and potential investors through a series of economic and financial indicators considered significant in attracting them.

The internationalization of retail activity originated in Italy, specifically in marine areas, whose commercial bases were scattered along the Mediterranean Sea but also in states around the Atlantic for trade with the barely discovered New Continent. So the internationalization of retail activity is not a recent phenomenon since it began in the nineteenth century and evolved until today, but it varied in intensity and nature (Di Gaetano, 2005). Retail multinationals are in a continuous search for a balance between standardization requirements and need of stabilization. In this competitive arena in which internationalization process belongs to more than one category of options, adhering more and more the need to make the inevitable every development strategy.

Table no. 1 Development model for retail transnational companies

Industrial aggressive model	<i>versus</i>	Federal intelligent model
Adoption of limited formats	-	Differentiated formats
No or limited partnership on emerging markets	-	Partnerships and alliances on emerging markets
Focus on scale economies in supply logistics and marketing	-	Attention focused on integrating the back-office on access and distinct competency, best practices transfer.
Centralizing the bureaucratic functions of the country manager, diffusion of the mother company's economic culture towards the subsidiaries.	-	Using the transfer of the best local managers – absorbing and sharing local managerial culture of acquired firms.
Global Category Killer Model	-	Corporate – Parent Model

Source: Wrigley, 2002.

The strategic route of international markets development for the largest retailers on unspecialized distribution can be better understood if we look at the evolution of some indicators such as: turnover, working capital, financial position (expressed by comparing total assets to equity and liabilities), leverage (debt to equity), liquidity and net profit (profit or loss). The analysis of these indicators is important in determining shareholder relationship to management, which is why lately there has been a particular emphasis on implementing programs that continue to retain and monitor target range shareholders representing a strategic objective for the proper management of Investor Relations.

Retail company communications have a critical role in the process of mergers and acquisitions, as it is absolutely necessary to present as accurately possible all efforts made so as to raise awareness to main subjects of the financial community, and other users as well, in order to get them involved. This allows for a flow of information for shareholders and potential investors to be more transparent in order to optimize and maximize shareholder structure representation.

A proactive and transparent management of the relationship with shareholders is increasingly an essential element in the assessment processes of a company but also a powerful tool to reduce costs on attracting venture capital.

V. CONCLUSIONS

Attracting the interest of potential retail investors or maintenance of existing ones, even by resorting to aggressive publicity, information transmitted through mandatory and voluntary reporting of companies operating in this sector play an important role.

In this paper we analyzed some aspects of communication related to retail companies in order to emphasize which information is considered relevant, timely, useful and credible to stakeholders and potential investors.

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