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Financial Communications: Partners in disclosure

Craig McGuire - 21 Feb 2005 00:00

Financial and communications pros are collaborating more.

With proper financial disclosure now paramount, many corporations have encouraged a close working relationship between their senior financial executives and their corporate communications professionals and external PR counsel. *PRWeek* profiles a handful of these relationships, offering insights on how to keep all parties on the same track.

The Regence Group

As the largest affiliation of healthcare plans in the Pacific Northwest/Mountain State region, The Regence Group decided to embark on a two-year plan to consolidate five separate financial units spread across four states into a central authority.

The ambitious plan involved integrating the finance engines of Regence BlueShield of Idaho and Washington, and Regence BlueCross BlueShield of Oregon and Utah, which collectively serve nearly 3 million people and drive \$6.5 billion in combined revenue.

"Our CFO, Steve Hooker, realized that this objective required a significant amount of communication to make sure everyone within the company understood the reason, and subsequent benefits, of these changes," says Angela Hult, assistant director of strategic communication. "That's when a member of the strategic communications team was assigned to the finance group to create a close partnership between finance and communications."

Karin Holsinger, director of financial accounting and reporting, adds, "As we consolidated multiple functions over four states, it was critical that employees inside and outside of the finance group understood the importance and necessity of our actions."

Drawing communications into the fold not only led to a smooth transition, but it set the stage for closer collaboration in the future, establishing a number of policies.

Now, finance group pros must communicate all change in process or procedure, explaining how the change ties back to overall strategic objectives and what it means to employees. A set of key messages has been created for the financial division, which is regularly integrated into communications, and the CFO meets regularly with reporters to discuss the complexities of the company's financial reports. In addition, a member of communications is usually included on the launch team for new products, and no document or financial communication is distributed widely without input from communications.

NMS Communications

The bond between a company's financial officers and its communications professionals is like

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any other corporate relationship. E-mail and annual corporate roundups will only get you so far, and without constant nurturing and plenty of face-to-face encounters, it can wither on the vine.

As director of corporate communications for NMS Communications, Pam Kukla knows the value of face time. Under Kukla's watch, the publicly traded Framingham, MA, mobile technology vendor has appointed two successive CFOs in the past six years.

As a provider of new mobile voice, data, and video applications, and wireless network services, NMS is entrenched in a competitive space. As such, it requires a group effort to eke out every competitive advantage possible.

Luckily for Kukla, though, both CFOs have been very engaged with the head of corporate communications.

"The first CFO came to the company and the relationship understanding the importance of presenting a complete, cohesive company story, including the value of proof points to illustrate and reinforce the credibility of the story," Kukla says. "The second CFO was quick to appreciate the value, but corporate communications initiated the closer working relationship, suggesting there were benefits to taking it beyond quarterly earnings announcements."

However, neither Kukla nor her CFO, Bill Gerraughty, take their working relationship for granted and schedule regular encounters.

"In a dynamic industry like telecoms, it's imperative that the individual responsible for press and industry analyst relations and the CFO have a strong working relationship that gives each clear visibility to developments in their respective arenas," Gerraughty says. "Early morning coffees and frequent swing-bys are a must."

Kukla places equal emphasis on their time together.

"We'll have coffee at least once every couple of weeks so he can fill me in on the emerging financial side of things," Kukla says. "And at least every couple of days, we're in each other's offices or on the phone with specific questions that have arisen in our minds - and to which, once we have the added intelligence, we're prepared to respond should an external source pose the same question."

This close contact enables Kukla to provide the trade and general-business publications with the most appropriate and complete context without revealing anything that's not appropriate and shouldn't be disclosed.

"Since the CFO and I are in sync and routinely working together, when the media calls, whether it's trade or financial media/researchers, on many occasions either of us can answer questions," Kukla explains. "For example, I keep him informed about our press-release pipeline and make sure that he understands the industry implications, competitive positioning, and some of the details behind major new customer announcements."

Cepheid

When your company develops, manufactures, and markets fully integrated systems that perform genetic analysis for the clinical genetic-assessment, bio-threat, and life-sciences markets, communicating to certain audiences can be challenging.

But when your company is also publicly traded, like Sunnyvale, CA-based Cepheid, and must comply with both Securities and Exchange Commission and Food and Drug Administration regulations, producing coherent and consistent communication can be downright daunting.

Cepheid has a diverse array of audiences - investors, industry analysts, customers, researchers, trade and mainstream media, medical practitioners, bio-threat specialists, SEC regulators, FDA watchdogs, and so on - and, as such, is under intense scrutiny, requiring lawyers to eyeball virtually every word the company utters.

"When I came on board a year and half ago, the CEO was in the process of more closely intertwining the communications, IR, and marketing functions," says Jared Tipton, Cepheid's director of marketing communications. "He really has some of the best marketing visions I have seen and an understanding and appreciation of the importance of consistent messaging."

"In today's highly regulated corporate environment, it's more crucial than ever to establish effective internal dialogue between our investor, media, and corporate communication efforts," says John Bishop, CFO and director. "Cepheid's messaging and branding is disseminated through each of these areas, making it critical for us to work as a cohesive unit."

To achieve this consistency, programs and initiatives were implemented to create channels for open dialogue between IR, marketing, communications, and even advertising.

"Before, let's say the IR guys wanted to create a company profile - it would be their own

thing," Tipton says. "That's no more. From trade-show booths, to product launches, to advertising, to financial reports, we have consistency across the board for everything that leaves the company, especially when it comes to the look and feel. This creates great efficiency, as, for instance, when you need to quickly create a new document, you do not have to reinvent the wheel every time."

Additionally, the Financial Relations Board provides an IR and media relations program for Cepheid.

"One of the challenges is making sure that we communicate the story in a way that satisfies regulatory folks that are more clinical in nature, such as the FDA, and, at the same time, make it understandable to others, like the SEC and Wall Street, that tend to not be quite as clinical and technical by training," says Lasse Glassen, VP at FRB. "For example, on the IR side, we recently held an investor and analyst day where we invited interested investors and analysts to spend a day with Cepheid's management team at the company's headquarters."

X-Rite

There is nothing like unintended confusion generated by a new accounting regulation to bring financial and corporate communications professionals together. In May 2003, X-Rite, a provider of color-measurement solutions composed of hardware, software, and services for the verification and communication of color data, found itself in just that situation.

X-Rite was in the process of dissolving an agreement with the company's original founders, which was in effect an insurance policy of sorts. The problem X-Rite's management faced was caused by a new and extremely complex accounting rule requiring that companies properly account for certain types of preferred securities whose popularity had soared in recent years.

Essentially, the rule forced X-Rite to account for dollars associated with this agreement to be carried through a certain way in its financial statements. More important, the new accounting rule was confusing to shareholders. X-Rite found itself in a position where its earnings went up, and its stock price went down; and where its stock price went up, and its earnings went down.

CFO Mary Chowning found herself spending the majority of the company's earnings calls trying to explain to shareholders how the accounting for the founders agreement misconstrued the company's financials.

Institutional investors stayed away. But X-Rite's management team was able to successfully dissolve the company's founders agreement and found itself wondering how to best communicate this news to its shareholders, customers, and the investment community.

"As we looked to unwind our founders agreement to bring more transparency to our accounting, we needed a vehicle to inform all of our investors, as it was a fairly sophisticated transaction and change to our future financial statements," Chowning explains. "Given the uniqueness and complexity of the situation, Ashton Partners, our investor relations and PR firm, saw this as an opportunity to achieve higher visibility for the company."

Ashton Partners associate Mac McNeer approached *The Wall Street Journal* to pitch the story with the intention of informing its key investor groups and broadening its corporate visibility.

"This was just the first step for us in broadening our corporate visibility, and Ashton continues to focus on unique angles to reach the financial media and high-level trade press that can be meaningful for us," says Chowning.

"The newsworthy part of this story was not that X-Rite had dissolved its founders agreement; rather, it was how the agreement and its underlying insurance policies had been transformed from an investor protection mechanism to a financial weight that limited the stock's upside potential," says McNeer. "My goal was to secure a placement that would include enough background about the agreement's history and accounting treatment that investors would understand that it was a good decision to dissolve the agreement." The stock has risen by 14% since the publication of the *Journal* story.

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