



Exploring Client Advisory Services: Communicating Financial Results to Stakeholders

By David Peters, CPA, MST, CLU, CPCU

About your instructor



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Learning Objectives

- State the accountant's role within a company
- Recognize how different stakeholders view financial statements.
- Identify how to focus in on just the key points when reporting financial results.

Discussion

In your experience, who is the toughest audience to speak to about financial results? Why were they the toughest?

Do you think that some people are just “not wired” to think about financial things? Or is this just something people tell themselves?

Why is communicating financial results such a challenge?

- Public speaking is intimidating! We worry about what other people will think about us, as well as the message.
- We worry about people “shooting the messenger” – namely, us! We have probably all seen a situation where a message has gone over poorly.
- We worry about confrontation. We worry that people will give us a question we can’t handle.

What is our role?

- In many ways, the accountant represents the voice of reason for the company. They provide an objective voice for other executives and stakeholders.
- We are an asset manager for the company. We look out for the well-being of the company and look for opportunities to preserve assets.
- We are also a part of the team. Therefore, we need to be approachable and able to communicate with various people with unique backgrounds in a way that they are comfortable with.

What do financial statements do?

- Financial statements are the dollars and cents representation of what the company is doing. In this way, the financial statements tell the story of the company.
- Our job is two-fold:
 - We need to be familiar with the story and be able to think about how it should show up in the financial statements.
 - We need to be able to communicate that story to the stakeholders in a way that they understand.

Activity

What would you expect to see on the financial statements in each of the following situations?

1. The company starts a marketing campaign to advertise a new product.
2. The company sells one of its office buildings for cash.
3. The company hires additional sales staff.
4. The company changes its payment terms from net 15 to net 30.

Stakeholders

- **Board of Directors** – Interested in the strategic direction of the company.
- **Department Heads** – Interested in operational efficiency and performance against a benchmark or budget.
- **Investors** – Interested in profitability (especially in the future) and return on investment.

Discussion

What are some of the other stakeholders that a company might have? What would they want to focus on?

What are some of the challenges of having a room full of different stakeholders?

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Challenges we face....

- Whether we realize it or not, our knowledge on financial matters is usually far greater than most of the stakeholders we talk to.
- We tend to use a lot of jargon when we talk. Think about all of the acronyms we use: GAAP, MACRS, AP, etc.
- We need to figure out how to say what we mean without using jargon, because it impedes understanding.

Challenges we face....

- Have you ever had a time where someone talked over your head about a topic? How did you feel? Did you think the person was smart? Was the conversation helpful?
- As you move up within a company, you will often times find yourself working and talking with people who are not accountants.
- The challenge becomes meeting people where they are at – not trying to show everyone how smart we are.

Activity

For each of the following, explain the term without using any industry jargon. How would you explain each of the following items to a non-accountant?

1. Depreciation
2. Going Concern
3. Poor Earnings Quality
4. Materiality

What about other employees?

- Presenting financial results to other employees presents a significant challenge, because of the difference in experience levels and backgrounds. The variance is even greater than in the boardroom!
- Creating better awareness can help other employees understand the decisions that are made more easily.
- However, just like in our personal lives, companies are prone to bad habits.

Creating Better Awareness of a Company's Financial Position



- All-Hands Meetings
- Roundtable Discussions with Executives
- Email Blasts
- Is there a way to turn it into a friendly competition?

Discussion

Compare and contrast the techniques on the previous slide. Are there any ways to make them more effective? Are there some that naturally work better than others?

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Ten simple rules for effective presentation slides by Kristen M Naegle (National Library of Medicine)



- Rule 1: Include only one idea per slide
- Rule 2: Spend only 1 minute per slide
- Rule 3: Make use of your heading
- Rule 4: Include only essential points
- Rule 5: Give credit, where credit is due

Ten simple rules for effective presentation slides by Kristen M Naegle (National Library of Medicine)



- Rule 6: Use graphics effectively
- Rule 7: Design to avoid cognitive overload
- Rule 8: Design the slide so that a distracted person gets the main takeaway
- Rule 9: Iteratively improve slide design through practice
- Rule 10: Design to mitigate the impact of technical disasters

Discussion

When you put together a packet/presentation of financial information, what approach do you use? Any best practices to ensure that the main message does not get lost?

Any lessons on what not to do?

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Learning Styles

- Most of the time, we refer to 3 or 4 different learning styles:
 - Visual, auditory, reading/writing preference, and kinesthetic.
- There is mixed evidence (at best) that people actually learn better within one of these preferred styles.
- As summed up in a recent article from Yale University:
“the overwhelming consensus among scholars is that no scientific evidence backs this “matching” hypothesis of learning styles (Kirschner 2017, Pashler 2008, Simmonds 2014). While all learners can develop subjective preferences for studying or digesting material, studies deny that students learn better through a self-reported learning style.”

Discussion

Is it ever appropriate for us as financial leaders within the organization to simply give up trying to communicate financial results to certain stakeholders (i.e. – they either get it or they don't)?

If so, when is that time? How do you know if you have reached that point?

Baylor University: 10 Tips to Communicate More Effectively (3/15/24)



1) Know when to stop talking.

- “Skilled communicators know when to stop talking and listen,” Sara Perry, PhD, an associate professor of Management, said. “Ask a question and stop. Do not explain why you asked the question, or ask a question and then immediately follow up with more thoughts.”
- Filling empty spaces with words can relieve anxiety, but it can lead to poor listening and oversharing. Being willing to sit through silence is a valuable skill that, when mastered, can convey a message more effectively than maintaining a steady stream of conversation.

Baylor University: 10 Tips to Communicate More Effectively (3/15/24)



2) Take off the mask.

- “Some people think that communicating well means putting on a mask or a costume, like you have some sort of alter-ego,” Sarah Varga, PhD, an instructor at the Hankamer School of Business, said. “But you can communicate effectively while still being yourself.”

3) Listen more carefully.

- In every personal or professional setting, the best communicators are also the best listeners.

Baylor University: 10 Tips to Communicate More Effectively (3/15/24)



4) Never stop improving.

- Some people are more innately gifted at verbal or written communication than others, but everyone can improve throughout their lifetime.

5) Take a breather.

- In her Negotiation and Conflict Resolution class, Perry often advises students to “go to the balcony.” In other words, leave a heated negotiating table and get some air. When the “fight, flight, or freeze” response is overwhelming the brain, it is best to pause a conversation and find a way to calm down.

Baylor University: 10 Tips to Communicate More Effectively (3/15/24)



6) Bring energy and enthusiasm to the table.

- Sometimes, in an effort to appear professional, people intentionally lower their enthusiasm or energy level. They do not want to come across as overeager or naive, so they end up coming across as serious and disengaged instead. While you do not need to put on a bubbly, gregarious persona if it is not native to your personality, it should still be evident that you care about whatever you are communicating. Do not be afraid to make a joke or move around during a presentation. Do not make an interviewer wonder if you really want the job. Professional and personable are not on opposite ends of one spectrum. They are on two different spectrums, so you can be both simultaneously.

Baylor University: 10 Tips to Communicate More Effectively (3/15/24)



7) Find points of connection, even when there is disagreement.

- Communicating well with someone with fundamentally different values hinges on the ability to listen carefully and find common ground.

8) Tell a story.

- Humans make sense of the world in stories. When a speaker begins a speech or presentation with a story, that is often the part that the audience remembers after they leave.

Baylor University: 10 Tips to Communicate More Effectively (3/15/24)



9) Edit yourself.

- There are few experiences more cringeworthy than watching a video of yourself, but evaluating speech from an outside perspective can help identify points of improvement when it comes to distracting habits and mannerisms. Whether it is limiting filler words like “um” and “like” or making a point to move around slowly rather than fidget, small changes can make all the difference.
- Editing your communication also means grouping pieces of information well. In a professional context, people usually have more information to present than they have time to share. They often fall prey to the temptation to dump the entirety of their content onto their audience, hoping someone grabs onto a nugget of useful information here or there. Instead, they should “chunk” information, breaking it down into digestible parts and highlighting major points without overwhelming people with excessive detail.

Baylor University: 10 Tips to Communicate More Effectively (3/15/24)



10) Select the richest medium.

- Anyone who has ever fought with a friend or family member over text knows that the most convenient medium is not always the best medium for communicating well.

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MIT Human Resources: Key Tips for Active Listening by Jeannette Gerzon



- **Choose to listen (or not):** If you cannot listen now but are willing, set a time for later.
- **Find a good space:** Choose a place to talk without distractions.
- **Take the time:** Let the other person tell their story.
- **Respond (vs. react):** Choose your body language, tone, and intention.

MIT Human Resources: Key Tips for Active Listening by Jeannette Gerzon



- **Show interest:** Make eye contact; focus on the person speaking; don't answer your phone or look at your email.
- **"Hear" as well as listen:** It is normal to miss some words or not know their meaning. Ask: "Could you say that again?" "Could you explain.?"
- **Ask questions:** Ask for more information, for what happened. Ask if you understand: "Are you saying that ... ?"
- **Clarify/Paraphrase:** Not everyone knows exactly what they mean to say. Check your understanding. For example, "It sounds like what you are saying is____. Is that right?"

MIT Human Resources: Key Tips for Active Listening by Jeannette Gerzon



- **Be patient:** It's not easy for people to talk about important things.
- **Listen for content and emotion:** both carry the meaning at hand. It's OK sometimes to say, "How are you doing with all this?"
- **Learn:** Listen for their perspective/their view. Listen for their experience. Discover or learn a new way of seeing something.
- **Follow their lead:** See where they want to go. Ask what is important to them (rather than deciding where their story must go or how it must end).
- **Be kind:** Listen with heart as well as with mind.

Discussion

Which of these items are most applicable to communicating financial results? Are there certain ones that would work better when communicating to:

- ***The board of directors?***
- ***The marketing department?***
- ***Investors?***
- ***The CEO?***

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The same conversation....

- As human beings, we tend to have the same conversations over and over again. Often times, the same people speak up in every meeting!
- While some of this may exhibit a power dynamic within the group, it may also indicate certain biases that those within the group have....
- Biases may result from bad habits....

How do we form bad habits?

- **We get so used to things that we cannot think of it any other way.**
- “We always cater this meeting!”
- “We have to take the client out to this restaurant. They expect it!”
- “Our staff is underwater constantly. We have to hire someone!”
- **Behavioral finance is based in investing concepts but may provide some clues on this issue as well...**

Behavioral Finance Biases

Information-Processing Biases

- Anchoring and Adjustment
- Mental Accounting
- Framing
- Availability

Emotional Biases

- Loss Aversion
- Overconfidence
- Status Quo
- Endowment
- Regret Aversion

Information Processing Biases

- **Anchoring and Adjustment** – We have a number in our head of what our spending “should be” in a particular area.
- **Mental Accounting** – Too much emphasis on where the amounts are spent (sales budget vs marketing budget), as opposed to just realizing that additional spending affects the entire company.

Information Processing Biases

- **Framing** – Making decisions based on whether they are presented positively or negatively.
- **Availability** – Making decisions on immediately available information that may not be representative of reality.

Emotional Bias

- **Loss Aversion** – Not giving up on a project that should be abandoned, because then they would have to declare the project a failure.
- **Overconfidence** – Unlikely belief that we always control our own destiny.
- **Status Quo** – Fear of moving away from items that we have always spent money on.

Emotional Bias

- **Endowment** – Too comfortable because things have always been good.
- **Regret Aversion** – Fear of making a bad decision.



Case Study

You are the CFO of a small electronics distributor company in your hometown. The company has been expanding revenues over the last few years, but profit has stayed the same. This is largely due to a new product that the company has been producing, the widget.

While everyone had high hopes for the product a few years ago, your company has consistently lost money on the widget every year with no real signs of improvement.

*Sam Smith, who is in-charge of the widget line, comes to you after a budget meeting. He asks how much money the company will be putting towards his product this year. He says, **“We can’t quit now on the widget. Otherwise it will be a failure – and we just can’t have that! I know we can turn it around!”***

What bias is Sam exemplifying? How would you address Sam in this instance?

Dealing with Behavioral Biases

- **Information Processing Biases** – Errors in logic or how the information is processed. It is a lack of understanding. *(Generally corrected through education.)*
- **Emotional Biases** – Erroneously reacting to a view based on one's feelings. *(Generally cannot be corrected, so it needs to be accommodated.)*



Dealing with Behavioral Biases

- In investing, we generally want to evaluate:
 - Standard of Living Risk
 - Cognitive vs. Emotional Bias
- If standard of living risk is low, deal with cognitive biases through education. Emotional biases can be accommodated.
- If standard of living risk is high, deal with cognitive biases through education. Emotional biases must be confronted.

Why do biases shape how we present financial results?

- If we can understand the biases that people bring, we can address those situations more productively.
- For example, if you know there are expectations for raises in a year, you can address what people can expect.
 - “We may not be able to give raises like we have in the past, because performance has been down in these key areas.”
 - “We normally would expect to see payroll increase by XX% each year around this time. This year, you can see that when you compare this month to last month’s cost, the increase is not as much.”

Discussion

Let's say that you have to present financial results that are going to be below the expectations of the audience. How can you prepare for this? Any best practices? Techniques?

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Getting to the point...

- In many cases, we may have limited time to present financial results. In this instance, we need to get to the point quickly.
- In media appearances, it is often best to state major points first and then support them only upon a follow-up request.
- Staying focused on the main message can help maintain an impactful message while keeping time to a minimum.

Stay Focused....

- If you know what stakeholders are generally looking for and some of the biases that they have, you can tailor the information to them.
- It is important to stay focused on their needs though. Be careful that you are not only telling them what you want them to hear!
- Accountants are usually detail-oriented people. The audience may not be!

Tips to Staying On-Point

- Knowing the timeframe that you have to talk can help you know how much to trim.
- The three points method – figure out ahead of time what three things you want to get across. Get those things out first, then provide detail if necessary.
- Less is more – If stakeholders want more information, they will ask for it. Say less and then be ready to field questions.

Discussion

Think about the audiences that you present financial results to. Do they care about the details? Or do they want you to just get to the point?

Is there a time when you should go into the details? How do you know?

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Summing It Up

- Different stakeholders are usually concerned with different things. Think ahead of time about what each stakeholder will likely be looking for.
- Knowing behavioral biases that people tend to exhibit can help us know how to best address their concerns – accommodate or appeal to logic.
- Most accountants go too deep into the details. Staying streamlined and focused can help keep the message at the forefront.

Thank you!



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