Financial risk communication

Why Swedish banks have different financial risk communication strategies
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1. Background

Communication, and especially strategic communication, is growing as a subject in society, research and industry. In a world characterized by constant change, unpredictability, and chaos, the ability to communicate is getting more and more important (Falkheimer, Heide 2008). Several factors are necessitating corporate communication with a strategic approach. This development is empowered by regulatory imperatives, the growth of organizational complexity and the need for credibility with various constituencies. (Argenti et al 2005)

Over the last two decades, financial PR and investor relations have developed fast, maybe faster than any other area of the communication discipline. Nowadays, it is respected as a significant component of the corporate communication message and a part of the corporate strategy itself. (Dolphin 2000, 2004) One business industry that has been under much attention in this subject in recent years is the bank sector. Often seen as an outcome of the recent financial crises, the bank sector is suffering from big legitimacy and trust issues. The societal and financial carrying unit can now be associated with irresponsible actions, frauds and lack of expertise. (Hallvarson & Halvarson 2010) As a result, international regulations and standards have been put forward to secure the financial stability, disclosure, and trustworthiness. In the EU, the most obvious one in this sense is the development of the Basel accords, from Basel 1 in 1988 through Basel 2 in 2006/2007 to Basel 3 which will be implemented in 2012-2015 (fi.se 2011-02-03). These accords highlight, besides higher demands on financial companies to evaluate their credit risks, and make a higher capital buffer mandatory, further financial information disclosures than ever before. (bis.org 2011-03-06)

Since 2007, most Swedish banks have been put under this regulative framework with a yearly financial risk report, also named pillar 3 reports, which give new disclosures of the companies’ valuation of financial risks as a direct consequence (fi.se 2011-02-03). Sandhu (2008) suggests that such legal initiatives are the driver of financial reporting. When looking at the Noric banks pillar three reports though, major differences are obvious in how the banks present their financial risk information (see table 1). If legal powers are driving financial reporting, it might be questioned how companies under the same legal framework have different financial presentation. Andrikopoulus (2007) have found a correlation between size of total asset size and voluntary disclosures which might explain some of these differences.
But when looking at the Nordic majors, the size is not different enough that it can be explained as the only characteristic that have created this major inconsistency in financial communication. It is further to explore why different approaches to financial reporting have been made by these companies.

Much research has been done on strategic communication in times of crisis, the more long term, or year to year communication, which gives the companies possibilities to build up trust and legitimacy. In a report made by consultancy Halvarsson & Halvarson (2010), the major Swedish banks and institutions crisis communication were evaluated. Some of the conclusions were that communication regarding the risk development, insecurity and crisis threats - before the acute crisis period - were defective. The “regular periods”, before and after the crisis, are those periods that are the important ones for building trust. “…that is the time when legitimacy, competence, transparency and integrity will be built in the companies’ amount of trust”. (p.4)

There are handbooks for successful corporate and financial communication that may suggest that there exist prerequisites of how reports of this kind should be presented. Also, the reports are results from a legal framework that is supposed to treat every business actor similarly. Still, there are big differences in how the banks present these reports and what they contain in terms of extensiveness, visual tools, text, etc. (see Table 1.) This creates confusion in whether these reports are to be seen as a pure product of a regulative initiative or if we are seeing a new channel of strategic communication.

This paper will dig deeper in to the factors behind the creation of these reports, not in order to determine what is right or what is wrong. Instead, it is aiming towards highlighting a recent

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<th>Bank</th>
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Table 1 Pillar 3 reports’ visual content 2010
phenomenon within the banking industry with the intention to bring new light to how the concerned should interpret it. This approach will hopefully give further understanding in how we can understand organizations and their decision making in the field of corporate and strategic communication.

1.1 Purpose
To explore how we better can understand the factors behind companies’ selection of report communication strategies through the Nordic bank sector and their financial risk reporting.

1.2 Research question
What are the actual differences and reasons behind dissimilarities in risk report communication strategies in the Nordic banking industry?
2. Literature and previous research

In recent years, the growth of strategic communication as a term in communication research has been significant. (Hallahan et al. 2007) There has been several attempts to define the content of the expression and to call attention to the drawbacks of a missing definition (Hallahan et al. 2007, Murphy 2008, Ströh 2007, Argenti et al 2005). However, the relationship between communication and the work of accomplishing the company’s strategy, vision, goals etc. seems to be central for the understanding of the subject and the use of the term strategic. In defense for the use of the term strategic communication in corporate communication is the natural strive for companies to compete and generate profits together with the consensus that corporate communication has become a competitive weapon for many companies. (Dolphin 2000)

What this paper considers is financial risk communication which is suggested to be one type of communication that can be identified in communication and business theory. It could be suggested to be put in the field of corporate communication as it could be exemplified as public relations, investor relations, public affairs etc. These types of communication are suggested to be categorized together because they are aimed at corporate audiences with a long-term perspective which does not mainly concentrate at generating sales. (Van Riel et al 2008) That means financial risk communication is not a sales function but a way of cultivating the way the company is viewed or “earning a reputation of honesty” (Yongsing Hong 2007)

Financial communication has several audiences and is often divided into the City, financial media and investors. (Dolphin 2000) The importance and the interest for investor relations is often highlighted in communication research. Also, the practitioners themselves often consider financial information provided by reports to be one of the most important matters in successful investor relations as the importance of keeping investors well informed is generally of high value. (Hong 2007) By disclosing what is stated by law, financial information is produced. Financial communication is something that takes the information further by stating additional information in the different communication channels. (Mazzola et al 2006) This means that practitioners working with financial communication must present more information or support the content that is required by law. The strive by practitioners to gain successful relations with the several audiences and to deal with financial illiteracy in the
audiences put high demands on corporate communication, such as financial communication, and communication skills. (Hallvarsson & Hallvarson 2010 p.6) On the other hand, new institutional theory suggests that financial communication is a type of strategic communication that should be viewed as a result of regulative initiatives. (Scott 2008, Sandhu 2009) This makes sense in the way that there are regulative directives for such communication. This does not give the whole picture of what makes companies with big similarities to adapt very different strategies though. If financial communication is a pure result of financial regulations, then why do we not see a more homogenized reporting for companies under the same regulative framework?

Other incentives than fulfilling a regulative demand for financial communication can be found in other theoretical approaches. For instance, financial communication is now an important matter in the work of gaining a trustful reputation and legitimacy. The last two decades this subject has shown a significant growth. It appears that the work of gaining public relation respectability has made financial communication to grow more than other fields of communication for the last 15 years. (Dolphin 2000)

In comparison to many other types of communication the financial communication in organizations that generally have a high number of stakeholders, needs to be prioritized for those audiences that are most crucial for the company. The amount of trust and reliability that the financial communication reflect makes this process perhaps more important in financial communication than other types of communication. Van Riel et al (2008) present three definitions for the segmentation of stakeholders: Power, legitimacy, and urgency. (pp. 163-165) The power of investors as capital suppliers makes the investor relation a necessity for the company’s maintenance. At the same time, it is not an easy task of communicating the financial information to the audiences. As mentioned above, audiences are often characterized by financial illiteracy (Hallvarsson & Hallvarson 2010) and the technical character of the report content makes it required to involve senior communicators in order to be successfully executed. (Dolphin 2000, Eiming 2010)

There have been wide discussions in research regarding voluntary disclosure in financial reporting with a concentration on the last two decades. (Slack & Shrives 2010; Meek & Roberts 1995; Chen et al 2002) These studies are generally directed toward the incentives
related to disclosing more financial information and going deeper into the figures that are presented in annual and quarterly reports. This promotes a view of financial information as a linear phenomenon, where the decision that has to be made by the company is simply if they will disclose more information or choose to disclose less. There have been several important findings in research made from this point of view. For instance there have been found evident that company size has a positive relation to extensive disclosures, in general size are seen as a characteristic that put higher demands of extensive reporting. (Andrikopoulos 2007)

Capitalization structure has also been argued to have some impact on voluntary disclosures and report extensiveness, but the company size have been stated to be the most influential characteristic. (Ahmed & Courtis 1999) What is probably more interesting is what these researchers did not find to have a correlation to voluntary disclosures. Leverage status, profitability and auditor firm size have not been found to have a significant impact on report extensiveness and voluntary disclosures. (Ibid) There are researches made with a different view of financial information where quantitative and qualitative components of the reports have been compared. Text, seen as a qualitative content and figures seen as a quantitative content have made research findings that suggests that the reader are able to get a more accurate perception of the company future by getting access to the qualitative information. (Kloptchenko et al 2004) Regarding to what is presented above about financial illiteracy it might be suggested that reports written with qualitative approaches, that are text oriented with a communicative vision will allow readers to understand the content of reports and pierce the financial messages. (Eiming 041011)

As the financial risk information is generally presented in written form, there is a high focus on different report or information presenting techniques. Such things as the use of graphical tools, tables, amount of text in relation to other ways of presenting the information etc. have got much attention in the research around the subject. (Hong 2007, Feng 2008, Van Greuning 2003, Bratanovic 2003) There are sometimes very hard to define the actual quality and transparency the communication provide. For instance, when is too much reporting the opposite of transparency? (Nielsen 2004) This creates an insecurity among practitioners of what is a sufficient amount of reporting, and together with the weighted workload, in other words money spent, for presenting further information may be a problematic set of issues in finding a good balance between transparency and information overload.
Transparency, viewed as an organizational idea, opens for a discussion whether translating theory might have an influence of financial reporting and disclosure decisions. When using metaphors, and seeing them as a “package of ideas”, those could create differences in practice when they are translated to the local conditions in the organization. (Sahlin-Andersson 1996) How problems are constructed in the local setting is needed to be understood in order to find an explanation of how and why practitioners persuade new models. When the local situation is compared to similar companies and a gap is detected, these could lead to inconsistency in practice. Identity crisis could thereby be seen as a cause for imitation. (Ibid) If this could be interpreted with an opposite perspective, it might be concluded that a strong and confident identity would be a cause for inconsistency.

Even though there has been a separation between the legal requirements of disclosure and the additional presentation of information in definition (Mazzola et al 2006), there is still much research that consider the driver of financial communication to be the legal initiatives. (Salvoni 2002, Sandhu 2009, Scott 2008) An institutional perspective on communication would suggest that companies imitate each other and only legal shifts and entrepreneurs are the ones driving change in this matter. (Lounsbury 2008) It is also likely that mimetic behavior and homogenous disclosure policies would reduce uncertainty. (Christensen 2002) This would suggest a homogenous flow of information from actors under the same legal framework with big similarities in company characteristics with exception from the entrepreneurs and innovators that are trying to drive the policies in a new direction. Still, there are major differences in the communication supplied by the large Nordic banks which makes these theoretical suggestions inconsistent with a practical example. Also, Van Riel et al (2008) mentions that it is not clear whether the transparency development among many companies today is a pre-existing condition or a considered strategy, which gives further incentives for dealing with this issue in further research.

As mentioned above, legal shifts and entrepreneurs are the ones considered to drive change in these matters. (Lounsbury 2008) Yet it is considered unclear which players that are the ones that end up creating the corporate standards that will maintain on the market. It is suggested that organizations simultaneously define the arena which the transparency game is played out. (Christiensen 2002) Further, it is also problematic to consider whether the shaping of
standards is in line with what the target group is requesting (Nielsen 2004) which obviously makes the organizations’ interpretation of the actual target group very important for tracing the institutional powers in this area. There is a big lack of knowledge in what drives management choices to voluntary disclosure which gives big opportunity to further research in the area. (Beyer 2002)

It is to further explore the reasons behind this inconsistency and why they have appeared. Maybe these theoretical views should be revised in order to explain why financial risk communication dissimilarities exist.
3. Method

In order to explain how to fulfill the purpose of investigating what makes similar companies adapt different risk report communication strategies in the Nordic banking industry, the research design, method and practical execution will be presented below.

The research will be explorative in the sense that the financial risk reports (or pillar 3 reports) have a rather recent appearance in business and is by that naturally not very well covered in other research. As mentioned above, theories about communication is not a new matter and could nowadays be considered a well-established subject of research. (Dolphin 2000) It is further to explore how the communication theories visualize in this new subject, and will be researched in order to get better understanding for what financial reporting represent in the field of corporate communication. As the aim is to elaborate on present theoretical reasoning it is natural to focus on finding factors that may explain the phenomenon, and further elaborate if these findings are competing with earlier theories. (Esiasson et al 2009 pp.123-131)

In general, the approach is qualitative with a careful selection of studied objects. These are the four major Swedish banks together with two major Danish banks, Danske bank and the substantially smaller Jyske Bank. These companies are together representing the major actors on the Nordic market under the Basel II regulations and one of the largest followers to the absolute majors. The Nordic market is chosen to create comparability among the studied objects. These companies also have many similarities in their market activity and they all have a mixture of both private and corporate customers. Jyske bank is, as mentioned above, substantially smaller compared to the other companies but have the purpose of giving the reader a hint of in what context the other banks should be viewed. If the market majors were the only banks that were present in this research it would be difficult to identify the extent to which they differ from the smaller banks on the market which is an important aspect on seeing what the reports represent in a larger perspective. Of course, having only one bank present from these smaller companies may not be appropriate to draw any conclusions of what is significant for these companies, but it shows an example of how a smaller company have chosen to do which is believed to give extra value to the analysis of the larger.
In an initial phase of this study, a financial report overlook was made of the following seven Swedish banks in terms of total asset size. This overlook showed that the inconsistency phenomenon is even more clear in the Nordic majors, even though it could be identified in the smaller banks as well, and the opportunities for comparison between the majors is considered to be of great importance for an adequate analysis. If a large number of other companies would be involved, there would be less comparability and by that also difficulties to define the actual reasons behind the phenomenon which makes a smaller sample more suitable for this study.

The method for data collection is divided in two, firstly secondary data from the actual financial risk reports were collected. In order to investigate the differences in the actual reporting, this was needed. There was also a screening of how the studied companies’ total financial reporting in order to see in what context the pillar three report should be considered. The strategies behind the communication are sometimes also presented in these reports but will not be the only source of that information.

The actual content of other reports than the pillar 3 report were not considered in a very large extent. The core of this thesis is to find out the reasons behind the pillar 3 reports and the other reports are only used in order to put the findings in a fair context. Secondly, interviews was be made with practitioners in all studied companies. These interviews with the Swedish banks were semi-structured and focus on the process of creating the reports, actors involved, strategies and their origin, and general views of the reports’ role for the company. Semi-structure interviews were also made with the Danish banks but over telephone because of practical reasons. This will of course be a weakness of using different methods for these companies, but as the phenomenon is clear even if only the Swedish banks were considered this may be seen as a complement to that information. The value of having Danske bank and Jyske bank as a part of the study is valued higher than the weakness of excluding these companies. This advantage is considered more important than the advantage of having a consistent interview method. The reliability of the information that is presented in reports that may be of interest for the thesis will be tested by using the two methods of getting this information.
Additionally, persons that may be interesting in the work of explaining how, and in what context, the reports should be considered were contacted. These are practitioners such as communication and investor relations consultants that are able to give useful information about what is specific for the industry and their view of the phenomenon. These respondents have been interviewed from two of the Swedish major communication consulting firms, Halvarsson & Halvarson, and Springtime PR.

When the interviews were completed, the information that was found interesting to present in the thesis were sent over by e-mail to the respondents for validation. In some answers, extra information was received which makes the information not only a result of face-to-face interviews but is added to the information that these interviews gave.

Much attention was paid on getting the right persons to be interviewed. As a rule of thumb, the persons selected were those that are responsible for the creation of the reports. As the board is generally supplying these managers with the directives of what the reports should consider and the person held responsible for the creation is also involved in the actual work of creating the report, this person is considered to have the most information suitable for the research. Also this was done in order to make the answers validity increased.(Esiasson et al 2009 p.68) By interviewing people that are not in different interest situations, the validity of the comparison is expected to increase. In Nordea, the responsibility of creating the report was partly divided which made it suitable to perform interviews on both of them. They were interviewed separately and no contradictions worth mention were found which is also supporting the validity of the answers.
4. Industry acknowledgements
In order to fully understand in what context this research is made, it is essential to explain the main characteristics of the Nordic banking industry. Further, the content of the pillar three of the Basel 2 initiative is briefly explained below in order to determine what information that is mandatory that is presented in the following chapters.

4.1 The Nordic banking industry
On the Swedish market there are 32 registered bank corporations, where four can be considered large banks. (Swedish bankers 2010) On the Nordic market there are five significantly large banks that are put under the Basel 2 regulations. These are the Swedish majors together with the Danish bank Danske Bank. In total, the major actors on the Nordic market put under the Basel 2 regulation are Danske Bank, Handelsbanken, Nordea, SEB and Swedbank. The Danish bank Jyske bank is one of the nearest followers to these large banks and might show in what context the larger banks should be put. Fig. 1 shows the total assets of all these companies. Nordea and Danske bank is without doubt the largest on the market and are followed by the three other majors. Jyske bank are substantially smaller even though it is one of the closest competitors on the market. This might give a picture of how dominant the largest banks are on the market.

What is probably even more important for this thesis though is the credit exposure these companies stand for, as the Basel 2 initiative is directed toward the credit exposure risks. Fig 2 shows the total credit exposure in absolute numbers. The major banks are still in dominant positions on the market when it comes to the credit exposure as well. The relative differences

![Figure 1 Nordic bank size (total assets) SEKmm](image)
are not as big in credit exposure as in size though which shows a closer competition from this perspective.

![Graph showing credit exposure of Nordic banks](image)

**Figure 2** Nordic banks' total credit exposure (SEKmm)

### 4.2 Basel II

As a response to a volatile and insecure financial market in recent years, the Basel II regulative framework was launched in 2007. The cores of the first two pillars are risk valuation and capital buffer but what is relevant for this thesis is the third pillar. This consists of a report and disclosure directive aiming at giving better insight into the banks appliance of the first two pillars.

The pillar three reports are mandatory to be given out at least once a year for credit institutes but have no restrictions against being given out more frequently.

The banks can indicate as much information as they want in these reports but have to fulfill some minimum requirements:

- The groups in the company, that have the responsibility of what is stated in the report and carriers of the internal guidelines for how the financial risk is valued, should be presented.
- The mandatory capital buffer goal and whether the bank have reached the goal or not.
- A summary of the strategy and method for evaluating the internal capitals sufficiency for future business operations.
- Which valuation methods are used and if internal models are used, they should be presented in how they work.²

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1. All information in this section is captured from the initiative guidelines published by the Swedish financial supervisory authority. Report no. 2007:5

2. Note: The text refers to the year 2007 for the Basel II framework launch, which is a slight inaccuracy as the framework was launched in 2006.
• Information about credit portfolio exposure such as:
  1. Definitions according to the accounting principles about invoices and their devaluation.
• The total value of exposure and their spread, both geographically and among business segments.
• The identified risks have to be defined and described such as:
  3. Market risks
  4. Credit risk
  5. Operational risk
  6. Other identified risks
• Further information should be presented by those companies that are under credit risk protection, but none of the studied companies are under such protection which makes it uninteresting to describe these elements in this paper.

\[\text{It is possible for all credit giving companies put under the Basel 2 regulation to apply to the financial supervisory institution to use an internally constructed model for risk valuation if the models provided by the Basel II initiative itself are considered less adequate for the company's credit situation. Most large banks choose to use such internal model.}\]
5. Findings

In this following section, the main topics and findings are presented that were collected through the interviews and reports mentioned in the method section.

5.1 The actual differences in the pillar three reports

Table 2 shows a composition of a few key elements in the pillar three report’s visual presentation. The first and probably most obvious element is the size of the documents in amount of pages. The two largest banks e.g Nordea and Danske bank have substantially larger documents than the others. Danske Bank with a 160 pages document and Nordea with an 86 pages document are presenting far more extensive documents than the following bank, Swedbank, with 40 pages. As a market leader Nordea find it very important to be “best in class”. (Movitz, Enghave) Danske bank finds it very important to have a very high level in their investor relations and explains their report extensiveness to be a result of that together with the fact that they are the market leaders in Denmark and a major competitor on the Nordic market. (Gottlob)

The other banks have chosen to produce a more slimmed down report where SEB and Jyske bank are the ones with least amount of pages in their reports. Jyske Bank as a significantly smaller player in the banking market mentions the exposure on several markets and industries might make the larger banks to present way more extensive reports. This makes it adequate for a bank like Jyske bank to write a smaller report without affecting the actual disclosure of the financial risks. Jyske bank is considered to deal with less financial risk issues than a larger bank which eliminates the need to deal with many of those subjects in the report. (Hastrup Mortensen)

SEB, with the absolutely smallest report in terms of amount of pages present a completely different view as they are still one of the largest players on the Nordic market. For them it is a strategic communicative choice to present a much smaller report than the competitors. As a lot of information is already presented about the company’s financial risk in other reports such as annual report, fact book etc. the most adequate way of communicating with the analytical audiences is to write a report that is strictly constructed after the legal requirements which makes it very easy to follow. Much emphasis is put on presenting the right numbers to give a fair view of the banks financial status instead of presenting a huge report with loads of text that puts the actual information in the background. (Nordlander)
Swedbank and Handelsbanken with their reports somewhere in between of the others have different views of what have affected their choice of extensiveness. Swedbank found that their position were adequate after looking at the other banks reports and discussing the extensiveness internally. The bank’s expressed value of having all reporting formed after the qualities openness and simplicity made their present level a natural choice for the pillar 3 report. (Frostling) Handelsbanken is not considering the other banks reports when making their own. As a bank with good reputation in this field they consider their business model to be the important thing to communicate and the report’s extensiveness is determined by the legal requirements together with the space needed to explain the most important essence of the internal business model for credit exposure and financial risk. After that, further information tends to only complicate the report and shift the focus from what is important for the company. (Hallåker)

The amount of pages may not be the most important matter of a report, one might claim that it is what you fill the pages with that matters. In that sense the amount of figures and words may be considered. All banks have chosen to disclose almost all their figures in tables and the total amount of table rows vary a lot between the companies. Figure 3 show how Danske bank and Nordea have the absolute most table rows and thereby also the most figures in their reports. Even though they both have way more table rows than the other banks, there is still a big difference among the two of them. Nordea, with the aim of being “best in class” when it comes to reporting and transparency have chosen not to disclose more figures than Danske
bank because it is considered to be one of the bank’s tasks to sort out the information that is not relevant for the audiences. They also find it very surprising that Danske bank disclose their calculations behind their leverage ratio and stress test results as it is generally considered to be very sensitive information. This information contains subjective interpretations that may not be positive for the bank to disclose for a larger audience. In order to be “best in class”, Nordea find it important to disclose as much relevant information as possible and sort out the rest. (Movitz) Danske bank consider the large amount of figures to be a positive aspect for their audiences. Very detailed information is considered to have long term positive effects on the stock price. (Gottlob)

The other banks are on fairly similar levels of table rows in their reports and have all sorted out such information such as very detailed information about their calculations of leverage ratio and have more simple explanations of their stress test results. SEB, Jyske bank and Swedbank consider that information to make the report more complicated than it adds value for analysts. (Nordlander, Haustrup Mortensen, Frostling) In Handelsbanken, some information has been sorted out because of its inadequacy for a fair judgment of the bank. Some information tend to make analysts look at things that is not interesting from a capital adequacy point of view and interest margin speculation is mentioned as an example (Hallåker)

Another aspect where differences can be found between the different reports presentation is the relation between text and tables. In this aspect Nordea and Jyske bank have presented the

Table 2 Pillar three report content comparison.

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³ The amount of text in words (t) divided by the the weighted amount of table content. Rows per table (Rta) multiplied with amount of tables (Ta). E.g Text/table relation= t / (Rta × Ta)

⁴ Difference between the column extremes in absolute numbers.
most amount of text in relation to tables. In Nordea, describing text commenting what is stated in the reports is considered to increase the readability and simplicity of the report. (Movitz) Jyske bank explain the high amount of text as a result of the bank’s strive towards telling the interesting story behind the numbers presented in the tables. (Haustrup Mortensen) The amount of graphical tools used, such as diagrams, models, and curves, is another thing that differs a lot between the reports. Swedbank have the absolute most graphical tools in their report even though they have a quite small amount of pages. This is seen by Swedbank as a way of creating simplicity. The graphical tools can be used to put figures in the right context and is a pedagogical way to compare and present numbers. (Frostling) SEB and Jyske bank have chosen to not have almost any graphical tools at all. SEB mentions that the bank is not supposed to do the analysis, the reader of the report should not be affected in his analysis by skipping over a lot of graphical tools in his reading. (Nordlander) The other banks all agree on that using graphical tools is a way of enhancing the understandability and layout of the report. (Hallåker, Enghave, Gottlob)

5.2 The process of creating a pillar 3 report
The internal process, the groups involved and diligence of responsibilities are very similar among the different banks. The investor relations (IR) department is the ones leading the process and are the ones deciding when the draft is good enough to be published. The financial risk unit is cooperating with the IR department in terms of supplying the adequate numbers and the information about the analysis they have made. The way of setting up the team is also consistent considering whether external experts (consultants) should be involved or not. It turned out that not one single bank had hired consultants with the purpose of giving extra knowledge or expertise in the creation of the report. Nordea had a few consultants involved but for administrative purposes only (Movitz 2011). The internal communication which holds the information that may end up in the final report is generally reported between the different units on a regular basis e.g in the accounting closing periods for the quarterly reporting.

The process of making a pillar three report compared with other financial reports, such as the annual report and quarterly report, is not very different except the involvement of consultants. The reason why is something that all of the representatives from the banks agree on, “the content is too technical”. Communication consultant Christofer Eiming (2011-02-16) at
Halvarsson & Halvarson agrees and says that this is something that is generally done internally by banks because of the technical nature of the content. On the other hand, the IR communication consultant Michael Wallin (2011-03-31) on Springtime say that there would probably be of value to use a communication consultant even for such work as a pillar three report and that the expertise needed exists in the consulting business. “Even though there is even possible to find communication consultants with very good knowledge of finance, the importance is rather that someone is involved in the process that have experience and understanding of how the information will be perceived by the reader. “

5.3 The report role in total financial reporting and report purpose
The pillar three reports are aimed toward experienced analysts as they are the ones considered to have the interest of the very advanced financial information. Even though this is the first answer for all the respondents, it has also been mentioned by all the respondents that the report is open for everyone with an interest in the bank’s financial situation to read the report. SEB, though, admits that their report would probably be presented in a more pedagogical way (Nordlander) Handelsbanken’s report would probably also be presented in a different way if the aim were to educate customers in financial risk valuation. It is made clear that the report should not be seen as a textbook in banking finance. (Hallåker)

All respondents describe the pillar 3 reports as a very central part of the total financial risk reporting. Some banks though, do not consider the report to be the stand alone major source of financial risk information. SEB, Swedbank and Danske bank are presenting a financial fact book that contains financial risk information as well. The pillar three report in Swedbank is viewed as a complement to this 70 pages financial fact book as it is known that many analysis turn towards the fact book in the first hand. (Frostling) In Swedbank’s case this fact book is very extensive in terms of numbers presented. The pillar three report is far more directed toward text and explanations.(Fact book, pillar 3 report) Also Danske bank mentions that the pillar three report should be seen as a complement to other sources of financial risk information. In their case the 50 pages fact book, quarterly reports, and annual reports are considered to still be very important medias of communicating financial risk (Gottlob)

SEB have a similar fact book but does not consider the pillar 3 report to be related to their 73 pages fact book in the same way as Swedbank. The report is viewed as a pure result of a
regulation e.g. the Basel 2 pillar 3 reporting requirement. And the purpose of the report is to fulfill that requirement. (Nordlander)

In Handelsbanken the pillar 3 report is viewed as a complement to the section in the annual report about capital adequacy, note 2. The fact book have only a couple of pages that could be considered to be related to financial risk and the financial risk information is thereby limited to be presented in the annual report, quarterly report, sustainability report and a few power point presentations on the webpage. The purpose is to present and communicate relevant info for the target groups which are mainly analysts. Anyone with the interest of getting insight into the company’s risk model is suggested to read the report though, but there are quite high demands of banking-finance knowledge from the reader which makes it inadequate for a larger public to read the report. (Hallåker) Nordea have chosen to present financial risk information in presentations as well as the regular annual reports and quarterly reports. The pillar 3 report is viewed as the central information channel for this kind of information though. (Enghave) The main target groups for the report is viewed to be analysists such as investors which is something that is generally considered by other banks as well. What differ in Nordeas view of the target groups is that rating institutes are viewed as important stakeholders as well. This is result of the bank’s vision to be “best in class” when it comes to corporate reporting. (Movitz) The banks position as one of the absolute major players on the Nordic market is mentioned as an explanation why the bank should have the vision to be “best in class”. (Enghave) Handelsbanken, Swedbank and Nordea together with Swedbank mentions that the annual reports have been slimmed down in the capital adequacy section, or corresponding, in order to move the information toward the pillar 3 report. (Frostling, Movitz)

5.4 The practitioners view of transparency

All of the practitioners working with pillar 3 reports have been very confident that their way of reporting is very transparent. The big variation in report presentation gives an opening for pointing out the differences among these practitioners’ view of transparent pillar 3 reporting.

Long discussions have been performed regarding the correlation between transparency and relevance. In Nordea transparency is a way of defining what is behind the word “best” in their “best in class” policy. The challenge of presenting an amount of information that represent a leading role in financial risk transparency versus presenting a report so stacked with so much
information that it is too complicated for the reader to peruse the important messages in the subject is highly considered. To deal with this, long discussions are made internally in order to define what information that could be considered an active choice to present. When this is done, all the information that is considered not to be relevant and is considered to be a possible active choice to present is sorted out. In order to make the report easier to follow, text is considered to be an efficient tool. More text is generally believed to enhance the possibility to easily follow the report content. (Movitz, Enghave) Danske Bank has considered that the amount of information may lead to problems for the reader to pierce the information in order to find the adequate information. The value of having the information present in the report though has been valued higher in order to at least give the reader access to the information. For them, that is a way of presenting transparency. (Gottlob)

In SEB and Handelsbanken, the huge amount of reporting that is mandatory an presented by the bank is a highly prioritized issue. (Nordlander, Hallåker) SEB find the most transparent way of dealing with this problem is to present a report that is as easy to follow as possible. Thereby, the report is considered to have high quality if the information is easy to find as possible and a shorter report is thereby considered to be more transparent than a very extensive one. If the analysts want to find further information there is still other media to consider such as annual reports, quarterly reports, fact book etc. (Nordlander) In Handelsbanken the overload of reporting has been an outspoken subject since the former CEO Jan Wallander’s era in the 70’s when the company went through a big transition of becoming the more modern bank that it is today. The value for analysts and other stakeholders of adding pages with to the reports is considered to be lower than the value of communication the most important message. This is a big topic of discussion about balance between amount of information and relevance among the practitioners working with the report. (Hallåker)

Swedbank has openness as one of the watchwords for all of the corporate reporting. This is considered to represent the company’s strive toward being a very transparent company. One of the other watchwords, simplicity, represents the communicative aspect of how this openness is reached through the report presentation. It is highly valued to determine which information that is relevant for the reader and to explain that information in a way that makes it correctly understood. Transparency is considered to be reached through presenting adequate information in a way that makes it possible for the reader to peruse. (Frostling)
5.5 Practitioners view of identity

Several of the interviewed practitioners have chosen to direct the conversation in the interviews toward the company, its identity, and how this is reflected in the reporting. In Swedbank the watchwords are seen as a result, and represent, the company’s identity. As the total reporting is made with those watchwords in consideration, the pillar 3 report is considered to reflect a lot of the Swedbank company identity. The way the information is presented is the way Swedbank wants to be perceived. The pillar 3 report is not viewed as a marketing channel though. Marketing is considered to have more power in other channels and the capital adequacy is not considered to be the right forum for that. (Frostling)

In Nordea the “best in class” vision is considered to be part of the company identity. As one of the market leaders in terms of size and credit exposure, the best in class vision is a natural choice for Nordea. The reporting is made in order to fulfill the watchword and to reflect the ambition that the company have in their overall business activities. (Movitz, Enghave) Danske Bank have chosen to present very extensive information which is claimed to partly reflect the transparent ambition in the company. On the other hand, one of the main purposes of having such detailed information is that it is believed to stabilize the stock price in the long term and is not considered to be the simply a way of trying to communicate the company identity. (Gottlob)

Handelsbanken has a strong ambition to communicate the business identity, on roadshows, stakeholder meetings and other gatherings they find it very challenging to communicate their business model as participants often tend to focus on details that are not the essential part of the bank’s major strengths. The corporate reporting and the pillar 3 report is viewed as an opportunity to show the audiences what the bank consider being the core of their successful risk policies. The business model and overall values that is considered in the daily business is considered to be the core of their strength, thereby, that is the most important thing to communicate. No benchmarking is made in Handelsbanken on a general level when the pillar 3 report is in made which is considered to be evidence of that the bank has its own identity presented in the reports. (Hallåker)

5.6 The future strategies of the reports

The pillar 3 reporting was introduced in 2007 and could be considered to be rather young even in 2011. (Fi 2007:5) The reports have definitely changed since the start but no major
changes have been made between 2009 and 2010 in any of the studied companies in terms of the communicative content and disclosure. (Pillar 3 reports 2007-2009)

SEB have considered to follow the examples of other banks and to disclose more information in the future but through frequent internal discussion they have come to the conclusion that they are very confident that their reporting strategy is good for their stakeholders. The simplicity of finding the adequate information is highly prioritized and we have no intention to change that in the nearest upcoming future. (Nordlander)

Swedbank, Handelsbanken and Nordea are also very confident that they have found a good balance between their internally prioritized values. (Frostling, Hallåker, Enghave) Swedbank have no long term plan of how the report should be written in the nearest future. These issues are discussed annually when the project is getting wider attention in the end of each year. The reason why no big changes have been made since 2009 is that the bank finally has found a level where the report is considered to have the highest quality and find no reason of changing that. (Frostling) Handelsbanken have a long history with their business model and as this is the core of the reporting it seems very unlikely that major changes in their reporting will be made in the close future. Also, many banks are waiting for the new regulations, Basel 3, in 2013 and might wait to see which effects this regulative change will have on the reporting. (Hallåker)

In Nordea it is important that the report reacts on the changes among the competitors. If there will be room for further development of the report in terms of disclosure and presentation they will absolutely change the report in order to be the bank that disclose the most relevant information to their stakeholders. If the competing banks will decide to disclose more information in the future this will probably also be done by Nordea. (Movitz, Enghave)
6. Analysis

6.1 The implications of the writing process

In many ways, we can see similarities of how different banks work with their pillar three reports. One of those similarities is in the process of creating the report. As they all have mainly two divisions involved in the process, IR and finance, it might not be an opening of discussing if this may be a reason for inconsistent reporting in their business field. With quite similar companies, that are all majors in the market, with very similar activities and the same processes of writing a report it would probably be more accurate to consider the consistent writing processes to drive the institutional powers that would create more similar reporting.

In comparison to other reports though, such as annual reports and quarterly reports, the pillar three reports differ by not involving any consultants in the writing process. This might firstly be an explanation why reports would differ within the organization but not why they differ between different organizations. On the other hand, in a discussion of what actually is the consultant’s role in an imagined pillar three report process it would probably be as of a translator of the financial data and setting an aim of what level the communicative content of the report would be in relation to the readers’ financial understanding. It may be the case that the practitioners do not have a full knowledge of how much of the target groups that are to be categorized as financial illiterate. If there was a consensus among the practitioners in this sense, it is possible that the reports would be more consistent. For instance, the difference between the SEB and Swedbank report could be related to this.

As, Swedbank wants to produce a very simple report that is easy to understand and thereby adds a lot of describing text and graphical tools and SEB is confident that if the report is slimmed down and contains the most important numbers it will be transparent for the readers. This would suggest that it is the company’s perception of the target group that drives the differences in report content and report communication strategies. As the target groups have been mentioned to be more or less the same for all the companies it is not the selection of target group, but the perception of the target group’s possibility to understand the financial content of the reports that could be considered central in what creates inconsistent reporting strategies. This could be seen as an explanation of why there are big differences in how the
companies present their data in form of text, tables and graphical tools as text and graphical tools can be seen as pedagogical instruments that help the leader to pierce the information.

It is possible that communication consultants have other perspectives on these kinds of issues and thereby would have created a more consistent presentation among the companies if they were involved. The problem of dealing with financial illiteracy though, has only been brought up by consultants in this issue and the banks are considering the analysts to be very competent. When the problem is not experienced by the practitioners themselves it might be questioned if this is a major problem, and if this view of financial illiteracy exaggerated by consultants as it may in their interest to convince companies that pedagogical communication strategies is an important matter. In that case, the banks may have got an opportunity to create their own concept for dealing with pedagogical approaches and interpreting the target groups’ financial illiteracy by not involving consultants.

6.2 The pillar three report in context
It might also be discussed if the total financial reporting is affecting the disclosure choices in the pillar three reports. The biggest difference in this sense is the financial fact book that some of the banks have chosen to present. If the amount of pages from the pillar three reports together with the amount of pages in the fact books is put together, it might roughly show in which context the pillar three reports should be put. (see table) In addition to this, the banks have presented power point presentations, quarterly reports and annual reports that differ between the companies which makes definite conclusions made by only considering pillar three reports and fact books inadequate. Still, it is important to point out that those banks that have chosen to disclose the most or least information, cannot be completely explained by an alternative source of information. For instance, Danske bank with the absolute most extensive reporting, have a fact book that makes the choice of a very extensive disclosure very obvious. It should be mentioned that there is a lot of overlaps in information between the pillar three reports and the fact books though, which makes the fact book content to be not only defined as additional information.

SEB with the definitely least extensive pillar three report present a rather extensive fact book which makes the pillar three report not only a result of a slim policy for total financial reporting. Also, the Swedbank fact book makes their financial disclosure policies of being very open more obvious and could, with the fact book counted in, be consider to be one of
those banks with absolute most extensive total financial reporting. Remarkable is also that Handelsbanken is not presenting a fact book which might suggest that they have chosen to go their own way in their disclosure policies even though they have a big focus on presentations,

In summary, the fact books counted in with the pillar three reports can make the differences in financial communication even more obvious than when the pillar three reports are not put in the total financial communication context. Danske bank’s pillar three report could thereby be seen as a more clear extreme and Handelsbanken’s pillar three report is also very interesting in its slim content as it is then quite comparable with the substantially smaller Jyske bank. The mimetic behavior as an institutional force could in this case be criticized as active choices are made to differentiate the pillar three report communication strategies which is not an obvious result of a strive toward having a financial disclosure policy in line with the competitors. Instead, we might find the financial reporting entrepreneurs even more significant when the pillar three reports are put in a more totalistic financial communication context.

The bank’s choice of target groups is interesting in the sense that financial reporting has a high number of stakeholders which makes it important to identify the main target groups in terms of power, legitimacy and urgency. (Van Riel et al 2008) There is a significant consensus over the choice of financial analysts as the main target group but may not be very surprising according to the complicated nature of the content. It could also be seen as a result

![Figure 4 Total capital adequacy reporting, Pillar three report and fact book pages](image-url)
of a legal initiative and the ability to fulfill the legal requirements might be easier if the choice of target group is consistent with what the legal initiative is aiming at from the beginning.

Analysts and investors, as major market players, could thereby be seen as a rather natural choice as the legal initiative is aiming at creating less insecurity in the financial market. In this sense, the legal initiative can be seen as a parameter that affects the communication after all. In this case though, the choice of target groups is so consistent among the companies that it does not explain the inconsistent communication strategies. It might then be questioned how much the choice of target groups actually affects the financial communication strategies in the pillar three reports.

6.3 Different views of transparency

As much attention have been put on transparency by the respondents in the interviews, it might be of interest to discuss the reason why the transparency expression have had so much attention in the work of writing the pillar three reports. Firstly, it is very consistent answers from the practitioners in terms of how transparent their reports actually are. As they all consider their own reports to be very transparent compared to the competitors, the inconsistency in communication strategies highlights the variety in how transparency is considered to be reached.

For Nordea and Swedbank, transparency seems to be a very important matter in the reporting process as it is mentioned to be reflected in their watchwords. Openness and simplicity in Swedbank’s case and, best in class in Nordeas case. If openness and simplicity is the driver for transparency in Swedbank, it might be questioned how the underlying contents information relevance and extensiveness in the “best in class”-watchwords can be considered to be drivers of transparency on the same market with the same target groups. Further, slim and accurate information is considered transparent in SEB, extensive reporting or simply more information is considered transparent in Danske bank, and communicating the core success factor (the business model) is considered to be transparent in Handelsbanken.

As different views are present, the question would be why they have occurred and if the transparency is viewed as a concept it might be explained by translating theory. As one of the cores in the translating theory is how concepts are interpreted the view of transparency as a concept would find support in the way that the studied companies have all made their own interpretation or translation of the transparency concept.
The single content of the transparency concept that seem to have been translated in the most inconsistent way among the different banks seems to be when too much information should be considered to be the opposite of transparency. In the case of SEB and Handelsbanken this line is suggested to be already reached as the main issue is to make the report slim enough to communicate the important message. Transparency is thereby considered to be reached through slim reporting policies. On the other hand, it is mentioned that it is most important in Handelsbanken’s case to communicate the business model as it is seen as a big success factor in the company’s capital adequacy work. In that way the view of transparency may not be the only factor that have affected their choice of communication strategy and local characteristics in the company may have affected their way of translating the concept, this will be elaborated further under the headline “identity”. Further, Nordea and Swedbank with their focus on finding the most relevant information possible, explaining it in a way that makes it possible for the reader to grasp, and sort out all the information that is considered less relevant may show a view that is slightly different. As further text presentation with the aim of explaining the underlying contents and interpretations of the actual figures is considered to generate higher transparency in the reports, it could be seen as another interpretation of where the line of information overload is reached.

In the case of Danske bank, an additional interpretation of the transparency concept is presented. By even disclosing information that other banks consider to be very sensitive, e.g. leverage ratio and detailed stress test results, it is made clear that there is a confidence that this will generate a lower bid-ask-spread in their stock trading. This could be seen as a high confidence that further information creates higher transparency. Thereby, the risk of presenting too much information that creates the opposite of transparency is not considered to be a present problem in this case. Instead, the transparency concept is translated in a way that makes further information adding value to the aim at very transparent reporting.

When concepts are translated, they are adapted in order to how problems are constructed in the local setting. Further, as identity is seen as an important driver of mimetic behavior (Sahlin-Andersson 1996) it might be of interest to analyze how the corporate identity have affected the reporting in these cases in order to be able to understand the underlying reasons why the inconsistency in reporting and concept translation have occurred.
6.4 Identity

Even though it may be criticized that previous research have focused on company size and capitalization structure as the most significant characteristics that affect the voluntary disclosures the correlation between size and report extensiveness could not be ignored in this study. As Jyske bank consider one reason of why they have chosen to present a much more slim report than the Nordic majors to be that the other banks are much larger in size it is evident that it has an impact on the disclosure decisions. Further, Danske bank and Nordea as the largest companies of the majors are the ones that can be considered to be most extensive in many aspects. The size and capitalization structure does not paint the whole picture though. There is still confusion in why SEB and Handelsbanken have an extensiveness on their reports comparable to Jyske bank, and there is still confusion in how Danske bank is so much more extensive in their reporting than Nordea. What could be criticized here is if it is the size itself that have impact or if it is the identity that the size reflects.

When both Nordea and Danske bank mentions that their position as market leaders is very important in how they evaluate their communication strategies. Considering themselves as market leaders in business might have an impact on how they consider the appropriate communication strategies. What creates the differences could thereby be viewed as more related to how the identity affects the translation of the transparency concept. As the watchwords in Nordea reflects the corporate identity of “best in class” and that it have been used in the pillar three reports’ communication strategies with the interpretation that “best” means presenting the most relevant information, the identity can be seen as something that have made much impact on their communication decisions.

Handelsbanken, with the high focus on communicating their business model, could also be considered to have been affected a lot by their corporate identity in their financial communication decisions. As no analysis of pillar three reports presented by other banks is made in their case it can be proven not to be put under institutional powers such as mimetic behavior. Instead it supports the theoretical view of a strong identity and entrepreneurship. In Handelsbanken’s case, the successful history and business model have made the bank confident enough that their way of reporting is of good quality as long as they communicate their business model. The strong corporate identity thereby makes the bank go their own way in their pillar three communication strategies and the identity can be seen as a major influence in the communication strategy decisions.
SEB on the other hand, may not be as focused on communicating their identity as many of the other banks. Their view of the transparency concept and how transparency is reached seems to be the major consideration in their selection of communication strategy. Despite this and the fact that a lot of reports from other banks are overlooked and compared in their decision making process, there are no reasons found that represent some kind of identity crisis. The confidence in that their report is very transparent and that it is a strategic choice to differentiate from the competitors represent a view that could be considered to support a very strong identity. It is not as clearly outspoken as the watchwords in for instance Swedbank, but the significance in their reporting strategies and confidence in strategic choice shows that the company has a different interpretation of transparency which supports a strong identity.

One of the clearest examples of that the identity has a big influence on the reporting decisions is in the case of Swedbank. As the watchwords open and simple reflects both their transparent ambition and their pedagogical approach of which the bank wants to be perceived is not made a secret. These watchwords can be seen as rather dependent on each other. Openness is made through simplicity, and simplicity is reached by selecting the relevant information for disclosure. This could be seen as a very close relation between corporate identity and financial communication decision making.

6.5 Long term strategies in pillar three reporting
The regulative presence of the Basel II initiative has only been on the Nordic market since 2007. This makes it appropriate to question if the phenomenon we see in this subject is a result of a fairly new topic. When the banks were asked about their outlooks and history in their pillar three reporting their consistency was very surprising.

As all of the banks have mentioned equilibrium to have been reached in the reports from the latest years, in terms of extensiveness, disclosure and overall strategies, it could be seen as if there are no big indicators big changes in the near future. Also, when overlooking the reports from 2009, they show few differences with the reports presented for 2010. This gives no support for suggesting a drastical change of report policies in the near future. On the other hand, the inconsistency can be seen as representing a market with entrepreneurs in strong positions.

As Lounsbury (2008) suggests, through an institutional perspective, that these entrepreneurs are driving change in the subject, it could be questioned whether the confidence among the
banks that their strategies will maintain is eligible. Still, Handelsbanken is not considering the other banks reports when they make their own which makes it inadequate to believe that they will show a mimic behavior without changing their processes. Further, Nordea will keep presenting more information than many of their competitors in order to be “best in class” which is an indication of that there will still be inconsistent reporting in the future that can be related to corporate identity. If this is true, there is likely that there will still be entrepreneurs present in the future of the pillar three reporting as long as some companies are aiming at making the reports that are the most simple to overlook and some companies strive toward presenting more extensive reports than competitors. This makes it no more adequate to see the future of the reporting in this field to converge as it is to expect it to diverge.
7. Conclusions

The purpose of this thesis was to explore how we better can understand the factors behind companies’ selection of report communication strategies through the Nordic bank sector and their financial risk reporting. In addition to previous research, several findings can be presented. The major contribution is in the subject of translation of the transparency concept and the way corporate identity affects the financial reporting strategies.

The findings suggest that the translation of the transparency concept is a major factor that determines the extent and approach that the company will find suitable for their financial reporting. The underlying issue that is considered to create the most inconsistency is when more information is getting so extensive that it represents the opposite of transparency. Weighting the ease of getting a fast overlook and to get the right information fast with presenting a report that makes it possible for the reader to get very detailed information is a major concern behind the creation of pillar three reports.

Further, the corporate identity affects the way companies translate the transparency concept. Together with strong interests in communicating the companies’ identity, the translations of the transparency concept create different approaches to communicative strategies and create reporting entrepreneurs. Such elements as watchwords and successful business models have great impact on how the reporting strategies will follow and how transparency is considered to be reached. It could even be further elaborated that the way of translating the transparency concept reflects the corporate identity as their correlation is so significant in this subject.

There is an expressed interest by many of the practitioners to differentiate their pillar three reports from their competitors which is seen as a way of demonstrating their identity. This suggests that focusing on the financial reporting entrepreneurs will give useful information of the drivers of change in this subject.

Although the translation of the transparency concept and the corporate identity are suggested to be viewed as drivers of the report inconsistency in the Nordic pillar three reporting strategies, there is still some support for what previous studies have shown. For instance, a correlation between company size and report extensiveness is found. On the other hand, this could be seen as a converging factor with the corporate identity as the respondents from the largest companies discussed their choice of approach by using expressions as market leaders rather than size of total assets. It could be concluded that company size, if it is a part of
identity or not, have an influence on the choice of financial report communication strategies but seen as a part of identity in translation theory we can get a grandate view of its implications on reporting strategies.

By investigating the Nordic banking industry and the financial risk report inconsistency we can see that there are openings for further understanding in the field of corporate communication and financial risk communication strategies. Finding the reasons behind very different choices of strategies can thereby bring new light to what is shaping financial risk reports and how these should be interpreted by the society. If further businesses and industries could be identified where reporting entrepreneurs make strategic choices to differentiate from competitors this might be seen as an opportunity to investigate how and why companies make their strategic choices. By highlighting new factors that shape the financial risk reporting and communication strategies in the Nordic banking industry, focusing on report inconsistency can be seen as an opening for further research.
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