CULTURAL COMMUNICATION DIFFERENCES: EVIDENCE FROM INITIAL PUBLIC OFFERING DOCUMENTATION

ABSTRACT

Differences across culture in written and oral communications can set the tone for effective or disastrous business relationships. Although English has long been the go-to language in business, managers and officials from different countries can significantly differ in the way they convey information related to their firms. In this study we explore these differences by examining the documentation presented by foreign corporations as part of their initial public offering in the US. We find that Chinese firms significantly differ from firms from other countries in the way they depict their strengths, strategies and challenges.

INTRODUCTION

Individuals and societies enhance their lives when experiencing the richness and diversity of cultures. Still, challenges, no doubt, will always arise when interacting and facing other cultures. Differences across culture in written and oral communication is certainly one of these challenges, as it unquestionably will vary across cultures. This study focuses on how different cultures communicate in distinctive ways, specifically, we will emphasize on how Asian/Chinese communicate differently when compared to other cultures. We examine and display empirical evidence from Finance which posits that these cultural differences are present.

Thus, in this study we examine, particularly, the relation between cultural communication differences in the documentation presented by foreign corporations in initial public offerings (IPOs) and the financial aspects of the IPOs itself. American Depositary Receipts (ADRs) began in 1927 in the U.S. as a new vehicle for investor, particularly small investors, to buy shares of foreign corporations. In general terms, an ADRs is a certificate issued by an U.S. bank and traded in U.S. exchanges that represents a fixed number of shares of a foreign corporation. In fact, most foreign companies that trade in the U.S. do so as ADRs.

All ADRs must register with the Securities and Exchange Commission (SEC) by submitting a set of forms. They must submit form F-6, which states the contractual terms, however this form contains no information about the foreign company. If a foreign company wants to raise capital in the U.S., it must submit to the SEC forms F-1, F-3 and F-4. Finally, if the company wants to list it ADRs on a U.S. stock exchange, then a form 20-F must also be submitted to the SEC.

In this study we will be concentrating on form F-1. Form F-1 is the standard registration document of foreign issuers. It contains general information about the firm and the business, as well as financial statements and risk factors. F-1 also includes a description of the strengths, strategies and challenges of the issuers; an important opportunity for foreign firms to "sell" themselves to potential investors. The number of words used by these foreign managers can give an insight on the cultural communication differences we plan to dwell on. Since Chinese firms dominate the ADR market, we examine the differences, if any, between the ways Chinese firms portrait themselves in F-1 documentation in comparison with firms from other countries.

LITERATURE REVIEW

Before we examine these cultural communication differences in the documentation presented by foreign corporations in IPOs and the financial aspects of the IPOs itself, we performed a review of literature focus on the effects of culture on communication behavior such as writing reports and statements. Specifically, we examined the following topics: a); Globalization's impact on Business Communication; b) Intercultural Business Communication; c) Cultural Awareness and its effect in accounting and financial choices; d) Collective vs Individualistic approach and the effect on communication and business processes; e) Chinese vs Western/European Accounting and Financial report and process characteristics.

Globalization

Globalization has led individuals to recognize the importance of effectively managing diversity (Georgiu, 2014, p. 22). In addition, Globalization is in constant increased and this phenomenon has brought people from different cultures together to collaborate and compete internationally (Vijaya and Tiwari, 2010; Virkkula-Raisanen, 2010). As stated by Georgio (2014, p. 21), with the globalization phenomenon, we see how societies and nations are connected in a complex network where they have a relationship of interdependence.

Globalization and its impact in the communication system

Globalization encourages us to further develop and strengthen the ability to communicate effectively with other cultures. It is also fundamental to develop cultural sensitivity to these cultural differences. This is a key to success and also a fundamental skill that companies seek in future professionals (Guang and Trotter, 2012). Slate (2004, p. 98) states that international trade has been growing consistently, thus understanding of other cultures is crucial. Increased globalization has had a lasting impact in our communication system. As more companies go global, it has become key for managers and entrepreneurs to seek for candidates with strong communication skills, as these skills are crucial to establish and strengthen good business relationships. Guang and Trotter (2012) point out that business communication strategies and skills determine in part their degree of profitability. Levy and Rodkin (2016), found that communication skills were among one of the most desired skills by more than 1,000 recruiters but the least found in new recruits. Nevertheless, companies working internationally are neglecting the effect cultural barriers and differences are having on business communication (Guang an Trotter, 2012, p. 6456). For global business to succeed internationally, their members must develop effective intercultural skills. Companies that spread to other countries must have a clear understanding of the cultural differences between locals and foreigners that work in the companies. Guang and Trotter (2012, p. 6457) point out the importance for the management in companies to recognize the cross-cultural and worldwide nature of the markets.

Intercultural communication

Intercultural communication focuses on how people from different cultures communicate and understand each other. Specifically, it is the communication among individuals or groups from different cultural backgrounds in business environments (Vijaya and Tiwari, 2010; Varner, 2000). Having intercultural communication competence translates into having intercultural social knowledge which means that an individual understands the behavior of other cultures (Mitchell and Benyon, 2018). An important aspect of this field is to understand the meaning of culture and understand the lasting effect culture can have in the business field. Culture defines human behavior, their community, its individuals and social organizations. Usually, culture will dictate the behavior of the members of that particular group (de Mooij, 2014, p. 56-57). According to Jameson (2007), professionals that constantly interact in intercultural settings need to understand the meaning of culture and more so understand the force and influence culture can have in business settings (Jameson, 2007, p. 200). In addition, the field has focused its studies in the use of multiple languages and shared languages in multinational corporations (Jameson, 2007). The biggest barrier to the success of a company in the business world today is the lack of cross-cultural understanding (Vijaya and Tiwari, 2010). Understanding and appreciating intercultural differences will promote effective communication and will avoid breakdowns in communication. Thus, this is why it is crucial to develop cultural awareness in the new and existing workforce.

Collective vs. Individualistic approach and the effect on communication and business processes

Hofstede (1984) designed culture-based societal value dimensions to develop a model with the purpose of identifying how culture relates to accounting subculture. This directly influences the development of accounting systems and practices on a national level (Jirong, 2000). The four culture-based societal value dimensions are as follows: Individualism versus Collectivism, Large versus Small Power Distance, Strong versus Weak Uncertainty Avoidance, and Masculinity versus Femininity (Hofstede, 1984). All these values have an impact on the accounting values. These values will explain possible cultural barriers and communication problems which in turn will produce inconsistencies in financial analysis and accounting method choices (Jirong, 2000). Several studies (Du-Babcock and Tanaka, 2013; Du-Babcock and Bhatia, 2013, Ting-Toomey, 2008) have posit that Asian cultures belong to a collective culture displaying High Context Communication (HCC) style whereas Western cultures show more individualistic approach with a Low-Context Communication style. HCC style includes indirect communication patterns with a high level of ambiguity in some cases (Du-Babcock and Tanaka, 2013, page 266). The collective societies, such as Chinese, emphasize group sharing and harmony, whereas individualistic societies focus more on individual gains (Du-Babcock and Tanaka, 2013). Kankaanranta and Lu (2013) compared Chinese and Finnish Professional Communication in a Finnish company located in China and found that Finnish colleagues interpret their Chinese coworkers' messages as indirect and implicit. On the other hand, Chinese participants found their Finnish colleagues communication style as too direct and economical with words.

According to Cho, Rau, Liu, and Jiang (2017), Americans are more task-based whereas Chinese are more relationship-based. In their study, they found that American subordinates are more willing to share their opinions and are not necessarily concern about possible criticisms from their superiors. For Chinese professionals, it is crucial to build a good manager-subordinate relationship; for them *losing face*[i] is a very serious matter, meaning that they must protect their reputation.

In China, power distance is very marked, thus, authority, in a hierarchical structure, is more evident in Chinese organizational culture (Cho et al., 2017, page 7). Tang, Gallagher, and Bie (2014) studied how leading Chinese and American companies communicate their Corporate Social Responsibility programs (CSR) in their corporate websites. According to their findings, Asian companies used fewer statements to discuss working hours and overtime pay of their employees and were more conservative including information of the company on their websites. Du-Babcock and Bhatia (2013, page 2) state that to have a comprehensive understanding of Asian business communication, variables such as culture and language use should be studied as these are elements that affect the communication processes. The authors point out that language employed by individuals can have an effect on the message content and communication behavior (Du-Babcock and Tanaka, 2013, page 268).

Cultural Awareness and its effect in accounting and financial choices

Cultural Awareness is defined as having knowledge and developing sensitivity towards the effect of behaviors influenced by culture, such as human behavior, language use and communication (Tomalin and Stempleski, 1994). Cultural awareness will facilitate negotiation between diverse cultural groups. For example, Chinese and Japanese have a very strong cultural identity. In their negotiation style, they tend to adopt an indirect and nonverbal communication style, whereas Westerners adopt a more direct verbal approach. Chinese highly value ambiguity and use nonverbal cues while Westerners go straight to the point. Chinese often prefer to fully develop a relationship of trust before sealing a deal, and a contract also translates in a spirit of cooperation between the business partners. In the United States, a contract usually means the negotiations ended (Slate, 2004; Jirong, 2000). Jirong (2000) points out that the internationalization processes of equity markets and accounting practices have led management in companies to be more alert to the influence cultural factors and accounting choices have on stock market returns.

Chinese vs Western/European Accounting and Financial report and processes characteristics

In this section, we searched the literature focusing mainly on differences displayed between Chinese vs Western/European firms' behavior in the market when it comes to accounting and financial processes. We found studies where these characteristics were compared and contrasted.

Chen, Cheng, Lin, Lin and Xiao (2016) examined why Chinese reverse merger (RM) firms had lower financial reporting than U.S. IPO firms. The results show that among RM firms, those subject to weak legal enforcement showed lower financial reporting quality. Findings also show that less scrutinized RM process often led to lower financial reporting quality but only when the RM firms are subject to weak legal enforcement. Authors posit that the RM effect and the weak country effect contributed to a lower financial reporting quality of Chinese RM firms (Chen et al., 2016, p. 1364). According to Shu Fen Tai (2007, p. 8), complexity of IPO has increased, since different professionals such as investment banks, syndicate of banks and brokers, lawyers, and professional investors are involved in the process and effort. Larger IPO deals are more complex to implement when it comes to IPO communications (Shu Fen Tai, 2007, p. 8).

According to Tai (2007), for China it is much more appropriate to find listing in the Hong Kong Exchange, as it seems much more appropriate due to its geographical proximity, similar language and similar cultural and corporate governance levels and regulations. In addition, Hong Kong's stock market has developed to be deeper and more liquid, displaying to be as capable as U.S. securities markets to listing mega-companies, as shown by big IPOs of companies from Mainland China (Tai, 2007, p. 10).

The relationships with countries also may affect the IPO demands. For example, and as stated by Tai (2007), the regions of Eastern Europe, Middle East and Russia have had poor relations with the U.S., and this might affect these countries willingness to enter U.S. markets.

Globalization has changed the investment environments; thus, issuer companies have to emphasize transmitting clear communication to be able to deliver a credible image of the company's management and services. In addition, issuer companies must invest more effort to attract investors' attention to meet their investment demands (Tai, 2007). Indeed, globalization has placed the challenge in companies of dealing with culturally diverse audiences. Thus, issuer companies have to guarantee the production of different audiences that will comply with the needs of culturally different audiences (Tai, 2007).

The study of the ever-increasing role of soft information in financial markets is still fairly new. On the relation between textual information and IPOs, Hanley and Hoberg (2010) finds that the more the informative of content IPO prospectuses is, the more accurate the offering prices are and the less the underpricing. Ferris, Hao and Liao (2013) also use textual analysis of IPO prospectuses and report that prospectus conservatism is positively related to underpricing. Examining S-1 filings, Loughran and Mcdonald (2013) find that IPOs with levels of uncertain text have higher first-day returns. Finally, Brau, Cicon and McQeen (2016) find a positive correlation between the IPO's strategic documentation tone and the stock first-day return and negatively correlated with stock's long-run return.

The literature discussed shows it is evident that the culture will affect the communication strategy used by any company in a particular country to announce their IPO. Companies, organization and professionals involved in ADRs and IPOs should, thus, develop more cultural awareness of the country and of the differences culture might cause on the IPO formulation according to different countries.

METHOD

As mentioned before, in this study we examine the ways American Depositary Receipts (ADRs) firm portrait themselves in their F-1 documentation for the Security and Exchange

Commission (SEC). As part of the F-1, ADRs firms must describe their strengths, strategies and challenges. This is an important opportunity to present themselves to potential investors. We use the amount of words firms use in the aforementioned F-1 sections as a proxy for differences in the writing communication of firms from different countries. Since, China dominates the ADRs market, we dwell on the differences, if any, between Chinese firms writing and that of firms from other countries.

Our sample includes 97 ADRs as identified in the Bank of New York Mellon's ADR directory between the years 2003 and 2015. The sample was double checked with the data available on www.adr.com. To be included in the sample, the ADR must have its F-1 document in the SEC's website.

RESULTS AND DISCUSSION

Table 1 shows the distribution of the 97 ADRs in our sample. First by country and then by geographical region. As presented in Panel A, the sample is dominated by ADRs from China with 74, followed distantly by France with 4. Argentina, Brazil, Israel, Peru and the United Kingdom each have 2 ADRs. Panel B of Table 1 shows the distribution by geographical region and as expected, North Asia is at the top with 76 ADRs, followed by Latin America with 9 and Continental Europe with 6.

Continuing with the description of the sample, Table 2 presents the distribution by industry. Although a well-diversified group of industries are represented in the sample, two industries are significantly present. Nineteen ADRs belong to the Software and Computer Services industry, while 13 belong to General Retailers.

Table 3 presents some market characteristics shared by the sample of ADRs. Most ADRs trade their shares at the New York Stock Exchange (53), while the rest do so in NASDAQ (44). Finally, Panel B of Table 3 shows that the Bank of New York is the depositary bank of choice with 36 ADRs, followed by JP Morgan & Chase with 26.

As we mentioned before, we examine how ADRs firms communicate in writing about their strengths, strategies and challenges as presented in their F-1 documentation to the SEC and to potential investors. We look at the number of words used in each section as a way to explore any differences in official written communication between Chinese and non-Chinese firms[ii]. As a first step, Table 4 shows some descriptive statistics on the number of words used by all the ADRs in the sample. The mean (median) number of words use by these ADRs to depict their strengths is 258 (80). For describing their strategies, the mean (median) is 210 (96). Finally, while communicating their challenges, ADRs use on average (median) 229 (184) words. The big differences between the mean number of words and the median, especially for strengths and strategies denotes important differences between the ways these ADRs communicate in writing.

In the next table we tackle the most important question of the study, do Chinese firms communicate differently in writing when compare with firms from other countries? Table 5 shows the results. We perform a difference in means analysis on the number of words used in each of the sections of the F-1 document. Panel A of Table 5 shows that on average Chinese ADRs use 118 words to describe their strengths, while ADRs from other countries use 707 words. The difference between these averages is statistically significant at a 1% level. Regarding firms' strategies, Panel B shows that Chinese firms use on average 130 words, while non-Chinese firms use 469 words. Again, the difference between the averages is statistically significant at 1% level. Finally, Panel C of Table 5 summarizes the results for the number of words use to describe the challenges these firms face. Chinese ADRs use an average number of words significantly lower than that used by firms from other countries. Chinese ADRs use an average of 201 words, while non-Chinese firms use 324 words. The difference is significant at the 5% level. In summary, we can safely say that indeed, Chinese firms communicate significantly different. However, although not reported in table, we find that the average amount of capital raised by Chinese firms is not statistically different that that raised by firms from other countries.

CONCLUSIONS

In this study we examine differences across culture in written and oral communications by looking at the documentation foreign firms submit at part of their IPO in US markets. We study the documentation presented by American Depositary Receipts, in particular Form F-1, the standard registration document of foreign issuers, required by the Security Exchange Commission and used by potential investors. We examine the description of the strengths, strategies and challenges of ADRs as depicted in their F-1, as an avenue to examine differences in the ways Chinese versus non-Chinese firms communicate in writing. We find that Chinese firms choose to use on average a lower number of words to describe their strengths, strategies and challenges. The difference in the amount of words used by Chinese firms in all three characteristics are significantly lower than those used by firms from other countries.

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Notes

[i] "With regard to constructive criticism, one would want to take into consideration the other's efforts to save face and have this conversation, privately, discreetly and tactfully. Refrain from proving someone wrong or criticizing them in public. This is considered *losing face* for Chinese and may result in an outcome contrary to what you had hoped for." (Cho et al., 2017).

[ii] For expositional reasons, we decide to truncate all the results related to number of words.

TABLES AND FIGURES

Table 1
Geographic Characteristics

Country	Number of firms
Argentina	2
Belgium	1
Brazil	2
Chile	1
China	74
Colombia	1
France	4
Germany	1
Israel	2
Korea	1
México	1
Peru	2
Russia	1
South Africa	1
Taiwan	1
United Kingdom	2

Region	Number of firms
Central & Eastern Europe	1
Continental Europe	6
Latin America	9
Middle East, North Africa & the Gulf	2
North Asia	76
Sub-Saharan Africa	1
United Kingdom & Ireland	2

Table 2
Distribution per Industries

Industry	Number of firms
Alternative Energy	8
Automobiles & Parts	3
Banks	2
Beverages	1
Chemicals	1
Construction & Materials	2
Electricity	1
Electronic & Electric Equipment	1
Financial Services	4
Food & Drug Retailers	3
Food Producers	1
General Retailers	13
Health Care Equipment & Services	2
Industrial Metals & Mining	2
Leisure Goods	3
Life Insurance	1
Media	5
Mobile Telecommunications	2
Pharmaceutical & Biotechnology	5
Real Estate Investments & Services	3
Software & Computer Services	19
Support Services	2
Technological Hardware & Equipment	7
Travel & Leisure	6

Table 3
Market characteristics

Exchange	Number of firms
NASDAQ Stock Market	44
New York Stock Exchange	53
Depositary Bank	Number of firms
Bank of New York Mellon	36
Citibank	22
Deutsche Bank	13
JPMorgan Chase	26

Table 4 Communications descriptive statistics	
Panel A: Strengths	
Mean	258.08
Error	34.43
Median	80.00
Mode	65.00
Standard Deviation	339.06
Variance	114964.47
Kurtosis	3.05
Asymmetry Coefficient	1.96
Range	1411.00
Minimum	35.00
Maximum	1446.00
Sum	25034.00
N	97.00
Confidence level (95%)	68.34
Panel B: Strategies	
Mean	210.34
Error	21.86
Median	96.00
Mode	68.00
Standard Deviation	215.30
Variance	46354.39
Kurtosis	2.30
Asymmetry Coefficient	1.68
Range	1011.00
Minimum	34.00
Maximum	1045.00
Sum	20403.00
N	97.00
Confidence level (95%)	43.39
Panel C: Challenges	
Mean	229.93
Error	17.92
Median	184.00
Mode	223.00
Standard Deviation	176.53
Variance	31163.30

Kurtosis	16.77
Asymmetry Coefficient	3.34
Range	1284.00
Minimum	65.00
Maximum	1349.00
Sum	22303.00
N	97.00
Confidence level (95%)	35.58

Table 5
Communication differences Chinese firms

Panel A: Strengths

	Number of firms	Mean	Standard Deviation	SE Mean
Chinese firms	74	118	129	15
Non-Chinese firms	23	707	412	86
Difference		589***		

Panel B: Strategies

	Number of firms	Mean	Standard Deviation	SE Mean
Chinese firms	74	130	127	15
Non-Chinese firms	23	469	239	50
Difference		338***		

Panel C: Challenges

	Number of firms	Mean	Standard Deviation	SE Mean
Chinese firms	74	201	134	16
Non-Chinese firms	23	324	253	53
Difference		122**		

***, ** denotes statistical significance at 1% and 5% respectively