Financial Communication and Risk Estimate in Initial Public Offerings: The Interplay of Individual, Organization, and Media Influences

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This interdisciplinary research study examines the communication process involved in the risk event of initial public offerings (IPOs) in the financial market. Three stages of analyses, in a triangulated approach of quantitative and qualitative research methods, were conducted to define financial communication. This study defines financial communication, from a micro perspective, as the process of communicating risk signals between the IPO organization and its stakeholders in the financial market. From a macro perspective, financial communication is the socio-cultural effect of risk in the systems of financial market across individual, organizational, societal and cultural levels in a temporal dimension.

The first stage of analysis was a survey \(N = 300\) on both individual IPO investors and individual IPO non-investors in the Hong Kong Stock Exchange. Structural equation modeling was the major analysis performed to examine communication rules that existed among variables in the financial context, namely investors’ expected return (risk premium and perceived total risk), perceived importance of organizational reputation, perceived importance of organizational trust, perceived importance of specialists’ trustworthiness in the media, and diversity of media used. In-depth interviews with organizational representatives at the second stage of analysis were conducted to follow up the investigation of existing communication rules in the financial market and their underlying reasons. Several variables with significant effect on individuals’ risk estimate, namely media visibility, amount of principal invested, investment knowledge, and contextual factors, were derived from the analysis.

The third stage of analysis was a content analysis on newspaper coverage (2600 newspaper articles) to provide an epistemological understanding on how print media reported the IPO information on the 38 IPO companies studied in the survey analysis. Performances indicators and risk indicators of IPO organizations were examined based on the framing effect of media coverage.

Based on the three stages of analyses, an integrative framework was introduced to define financial communication in relation to the phenomenological and the epistemological interpretation of risk. The integrative framework illustrated significant communication rules in the risk approach. Theoretical and practical implications to persuasive communication from IPO organizations, everyday life strategies and tactics used by lay people, government advocacy on the significance of risk in investment, and the role of financial public relations in the cultural economy of finance were discussed.
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