Mitigation of Cross-Cultural Differences in Financial Terminology

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The article discusses the challenges of the accurate interpretation of financial terminology between languages and cultures in the modern globalizing world. Unlike the words of general use, terms should have precise and unambiguous definitions to serve their function in communication and to be matched with the terms used to express identical concepts in other language cultures. The author argues that thematically arranged specialized glossaries with contextual examples and illustrations of the correlation between the terms and concepts could make it easier to identify similar and diverse concepts and terms used in various languages and financial cultures.

Introduction

" *Learning language is not simply a matter of learning words; it's a matter of correctly relating our words to the things and happenings for which they stand.* "
S.I.Hayakawa

One of the most urgent contemporary needs of the rapidly globalizing world is the international unification of terminology. If people are not to be perpetually at cross purposes, the terms need to be correlated and standardized (Crystal 2000). One of the most important areas for international cooperation and development, financial markets, is marked by the greatest conceptual and terminological differences, and therefore requires special attention and studies.

The collapse of the Socialist block opened the way for market economy development in the former socialist countries, which heightened the need to better understand the fast-changing global economy. However, the spheres of economics most vital for the survival of the countries in transition: financial markets, investment and financial management are marked by cross-cultural differences in basic concepts and terminology due to the inherited effects of the "socialist" economy. To join the international community in cooperation Newly Independent States (NIS) need to reconstruct their financial systems in alignment with the basic principles of the international market economy practices.

New economic concepts are being introduced to NIS through international educational programs and consulting services. English, predominantly American English, as the language of global economic communication, acquires its utmost importance in the transition stage of the new economies' development. But Business English instruction and consulting services are complicated by several factors.

First, financial terms and concepts used in the USA and in transition economies are marked by cross-cultural differences resulting from the historic and political developments of two mutually exclusive economic systems. Different experiences were symbolized by different terms. One of the main factors responsible for the historical differences in the operation of the banking system and in investment strategy in the countries of the former Soviet Union was the ideological constraint. The Marxian labor theory of value attributes all value to the current and past labor that has gone into the production of a commodity. From this, it was concluded during the early plan period that capital does not create value. Thus, using interest-like calculations to rank investment alternatives seemed out of line with Marxist ideology. The absence of the recognized discount rate, or interest rate contributed to the problem. To introduce rates of return and other capital profitability criteria the economists had to disguise these concepts under such acceptable terminology as *effectiveness of investment* and *period of recoupment*. The term *coefficient of relative effectiveness* (CRE) was designed to evaluate the trade-offs between the capital outlays and operating expenses. This inherited confusion in terminology (working and officially acceptable) combined with the modern tendency to use borrowed English terms (both British and American) for the concepts in the target language (TL) which are different from the concepts in the source language (SL) causes the cross-cultural differences in economic (specifically, financial) terminology in American English and the languages of NIS.

Second, Business English instruction in the countries of the former Soviet Union primarily touched the sphere of international trade. Terms used in other areas of finance were selected from the local economic texts and documents and just translated into English. And only socialist economists could guess what those “English terms” meant.

Nowadays NIS are developing in the direction of a market economy, following the operating international patterns. Eventually, a similar conceptual system and the associated terminology will be developed. But during the transition period the meaning of English terms should be specified when used in NIS to prevent misunderstanding caused by different interpretation of the “same” English terms in American English and the languages of NIS.

In this article we shall discuss the nature of terms and the ways to mitigate cross-cultural differences in financial terminology for more effective international communication and cooperation in the global world.

Words, Terms, and their Users

Terms, common words and proper names constitute the general class of lexical items.

But whereas names refer individually to objects and people, and words refer to general concepts – both inside the linguistic system and in the real world, terms refer to specific concepts within particular subject fields and therefore constitute a subsystem of knowledge. Lexical items can be studied either as purely linguistic entities or as referential entities. Terms, by contrast, are always studied in relation to the conceptual system to which they belong and in which they function as depositories of knowledge. Terminological theory proceeds from abstract cognitive units called **concepts** to the identification of appropriate linguistic expressions or **terms**. Behind each term there should be ideally a clearly defined concept which is systematically related to other concepts that make up the knowledge structure of the text or discourse in question (Sager 1998). To define specific terms, however, may be a challenging task both for native and non-native speakers.

Most native speakers can neither understand nor define any specific terms outside their field of knowledge. On the other hand, many people who understand and use the terms cannot define them (Hayakawa & Hayakawa 1990). Translators working with special knowledge texts face the task of not only decoding and recoding the message from one language code system to another but also of matching the concepts behind the terms in different cultures. Some concepts may be identical, and translators only need to find the terms that correspond to the same concepts in two languages. However, in most cases they may find that the concepts they deal with are similar rather than identical, or new to a language and culture, and they need to create new target language terms for new concepts (Sager 1998).

It seems natural that we need to define the terms to know what we are talking about. However, the fact that we can define a large number of words is no guarantee that we know what objects or operations they stand for in a concrete situation. Having defined a word, people often think that some kind of understanding has been established, ignoring the fact that the words in the definition often conceal even more serious confusions and ambiguities than the word defined (Hayakawa & Hayakawa 1990).

Dictionaries can offer little help with the definition of financial terms, since they explain the words by means of their synonyms, which leads to overlaps of meaning. For example, *The American Heritage Dictionary of the English Language* gives the following definitions of the terms *yield, return, profit, gain, revenue*, and *earnings:*

Yield - profit obtained from investment; return.
Return - profit or yield.
Profit - gain or return.
Gain - profit.
Revenue - yield from property, investment, return.
Earnings - profit from business and investments.

Unlike the dictionary definitions, the terminological definitions serve the function of establishing a clear link between the linguistic system and the conceptual structure of knowledge. In terminology definitions attempt to link the concept to be defined to its most closely related broader concept, thus fixing its place in the structure of knowledge. Moreover, they attempt to describe in what way this concept differs from other concepts in the same area of knowledge (Sager 1998).

However, some financial concepts do not have precise definitions in American English and vary in interpretation by different authors, which makes it difficult to understand what experiences stand behind the terms in written and oral business communication. The difference in concepts behind the terms *securities markets* and *loan markets, credit* and *loan* is usually not clear even in the definitions given in the modern textbooks of finance. For example, in the book *Financial Markets and the Economy* by C.Henning, W.Pigott, and R.Scott we can read:

> A loan is usually negotiated directly between the borrower and the lender; they deal face to face. In contrast, securities markets are impersonal or open markets; buyers and sellers of securities are usually unknown to each other and usually trade through brokers and dealers. Most consumer credit to finance the purchase of durables and of housing takes the form of loans...
>
> Some loans, having been made by one institution, may be sold to another institution in a secondary market; this is especially true for the mortgage loans. On the other hand, some securities issues are negotiated directly by borrowers with lenders, as in so-called private placement of bonds issued by a business firm and sold to an insurance company. Therefore, whether or not borrowers and lenders are known to each other does not always provide a sufficient criterion for distinguishing between a loan market and a securities market (Henning, Pigot, & Scott 1988, p. 8)

Some specialized glossaries offer more precise definitions of the terms used in the modern financial sphere. Using cross-references and examples to help simplify complex financial issues they make the terms more meaningful. However, taking you through the pages of terms with cross-references, glossaries may fail to help you understand the conceptual structure of the knowledge in the field. Therefore, unless you already have some idea about the specifics of the field, you may not be able to anchor the terms used in the glossary in the knowledge structure of a particular subject field. Furthermore, you may remain unaware of the existence of the variants of the terms and related concepts in the same area of knowledge.

Contextually Arranged Illustrative Glossaries

One of the ways to make terminological glossaries more helpful for cross-cultural communication is to group the terms according to the financial context in which they are used. For example, the terms may be selected from the following areas of Finance: “Money, Capital and Transfer of Funds”, “Financial Markets”, “Market Makers”, “Issuance and Marketing of Securities”, “Debt and Securities”, “Valuation”, “Returns”, “Banking”. To assist the users with the terms search the glossary may be supplied with an Index.

This type of glossary arrangement may offer a better idea about the conceptual and terminological systems used in a specific area of knowledge and can make it easier to compare them between the cultures. Illustrations, schemes, and formulae should be provided to define the place and relationship between the concepts, the operations they involve, and the terms that name them in each area of the field. Furthermore, contextual arrangement of the financial terminology glossaries will allow to see the differences between the concepts and terms of the SL and will ease the task to find or create, if necessary, the terms in the TL that can match them. The following examples demonstrate how several related concepts were presented in different thematic parts of the *English-Ukrainian Illustrative Glossary of American Financial Terms* (Regular font style)

I. MONEY

Money - anything commonly accepted as a legal tender currency for payment of debts.

Fiat money - paper money that is backed only by the issuing government's decree that it is acceptable as legal tender currency, rather than convertible into gold or other hard currency. Its value stems from public confidence.

Legal tender, currency - money recognized by law as acceptable payment for debts owed by creditors. Also called lawful money.

Hard (strong) currency - currency that is readily convertible, or exchanged for the currency of another country; currency expected to remain stable, if not appreciated.

Soft (weak) currency - currency of countries with political instability, balance of payment deficit, and frequent currency devaluations.

Currency basket - currency unit consisting of specific amounts of currencies from several nations, for example: the Asian Currency Unit (ACU), the European Currency Unit (ECU), International Monetary Fund Special Drawing Rights (SDRs). Nominal values of currency vary as the prices of constituent currencies fluctuate.

Gold standard - monetary system that pegs or fixes the value of nation's currency unit to a fixed amount of gold bullion. Paper currency in such systems is convertible into gold.

Gold stock - monetary gold reserves maintained by the U.S. Treasury.

Assay mark - mark put on gold or silver items to show that the metal is of correct quality.

Gold bullion - gold in its purest form. The metal may be smelted into gold coins or bars of different sizes. The price of gold bullion is set by market forces of supply and demand. Gold bullion is traded in physical form, and also through futures and options contracts.

Gold fixing - process by which the daily price is set for gold traded on the spot market. It occurs in London, Paris, and Zurich at 10:30 A.M. and 3:30 P.M. London time of every business day.

Cash - paper currency and coins.

Cash equivalents - instruments or investments of such high liquidity and safety that they are virtually as good as cash.

II. FINANCIAL MARKETS

Market - aggregate of supply and demand that brings together informed buyers and sellers, and sets the public price for products or services.

Money markets - markets for short-term (generally means one year or less) highly liquid debt securities.

Financial markets - markets where money or capital is traded.

FINANCIAL MARKETS

MONEY MARKET	**CAPITAL MARKET**
Securities traded:	**Securities traded:**
short-term loans	long-term loans
short term securities	long-term securities
certificates of deposit (CDs)	mortgages
money market mutual fund (MMMF)	consumer credit
	leases
	stock

Financial assets markets - markets for stocks, bonds, notes, mortgages, and other claims on real assets, as well as options and other derivative securities whose values are derived from changes in the prices of other financial assets.

Capital market - the market for long-term finance. In it, investors hang over money today in exchange for promises of money in the future. Capital markets are the markets for long term (generally means more than ten years) debt and corporate stocks.

Exchange markets - markets where standardized contracts are traded.

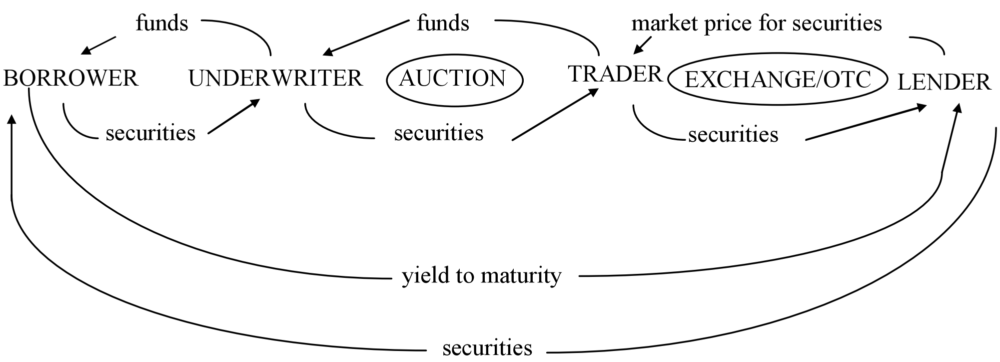
Securities markets - general term for markets in which securities are traded, including both organized securities exchanges, and over-the-counter markets.

Primary markets - markets in which corporations raise their new capital, through selling a new issue of common stock.

Secondary markets - markets in which existing, already outstanding, securities are traded among investors.

SECURITIES MARKETS

PRIMARY MARKET **SECONDARY MARKET**



Over-the-counter markets - all the security markets except the organized exchanges. Markets in which securities transactions are conducted through a telephone and computer network connecting dealers in stocks and bonds, rather than on the floor of an exchange. Over-the-counter stocks are traditionally those of smaller companies that do not meet the listing requirements of the New York Stock Exchange or the American Stock Exchange. The rules of over-the counter stock trading are written and enforced largely by the National Association of Securities Dealers.

Organized security exchange - tangible entities that physically occupy space and are used for trade.

Stock exchange - organized marketplace in which stocks, common stock equivalents, and bonds are traded by members of the exchange, acting both as agents (brokers) and as principals (dealers or traders).

Auction market - market at which the orders of traders are matched directly.

Auction - a public sale at which securities are bought and sold at the best possible price through competitive bidding.

English auction - auction at which successful bidders pay the price they have bid.

Dutch auction - auction in which all successful bidders pay the price of the lowest accepted bid.

Transaction - execution of an order to buy or sell a security or commodity futures contract. After the buyer and seller have agreed on a price, the seller is obligated to deliver the security or commodity involved, and the buyer is obligated to accept it.

Trading on the floor - trading at the exchange.

Floor - the part of a stock exchange where active trading takes place.

Pit - location at a futures or options exchange in which trading takes place. Pits are usually shaped like rings with several levels of steps.

IV. VALUE OF MONEY

Present value of a future sum of money:

$$\mathbf{PV = FVn}\left[\frac{1}{(1+i)^n}\right];$$

Future value of the present sum of money:

$$\mathbf{FVn = PV} \;:\; \left[\frac{1}{(1+i)^n}\right];$$

where **FVn** - future value of the investment at the end of the **n** years,

n - number of years during which the compounding occurs,

i - annual compound interest rate, and

PV - present value, principal or original amount invested at the beginning of the first year.

Present value of annuity: $\mathbf{PVa = A}\left[\sum_{t=1}^{n}\frac{1}{(1+i)^t}\right]$**;**

where $\mathbf{FV}_n$ - future value of annuity at the end of the *n*th year,

A - annuity received at the end of each year,
i - annual interest or discount rate,
PVa - present value of a future annuity,
n - number of the years for which the annuity will last,
t = 0, 1, 2, 3, …n.

Future value of annuity: $\mathbf{FV}_n = \mathrm{A}\left[\sum_{t=0}^{n-1}(1+i)^t\right]$;

Present value of perpetuity:

$$\mathbf{PVp} = \frac{PP}{i},$$

where **PVp** - present value of perpetuity,
PP - constant dollar amount, provided by the perpetuity, and
i - annual interest or discount rate.

Present bond value - sum of the present value of the interest payment annuity that the bond holder receives and the present value of the return of bond principal at maturity computed at the market discount rate (paid semiannually):

$$\mathbf{PVb} = \mathbf{A}\left[\sum_{t=1}^{nm}\frac{1}{(1+i/m)^t}\right] + \mathbf{FV}_{nm}\left[\frac{1}{(1+i/m)^{nm}}\right];$$

where **PVb** - present value of a bond,
A - coupon value paid (usually semiannualy),
$\mathbf{FV}_{nm}$ - amount of the principal,
i - annual interest rate,
n - number of years to maturity,
m - number of times compounding occurs during the year, and
t = 1, 2, 3, …nm.

Present value of a call option (with minor variations, the formula may be used to price other kinds of options, futures, derivatives) :

$$\mathbf{PVco = SN\ (d) - Le^{-rt}\ N\ (d - \delta\sqrt{t}\ );}$$

where **PVco** - present value of a call option,
L - set price called the strike price before a fixed future date,
t - time until the option expires,
d - combination of the formula's other variables; it relates movements in the stock price to movements in the stock value,
S - share price,
δ - the price's standard deviation,

r - risk-free return available on Treasuries,

N - normal distribution function.

The index of terms in the glossary can help the users to trace the use of the same words as different terms in different areas of finance. For example the term "floor" may have the following definitions depending upon the context:

Floor - the part of a stock exchange where active trading takes place (Financial Markets).

Floor - price at which a stop-loss is activated (Issuance and Trading of Securities).

Floor - option that insures that floating-rate payments on a security will not fall below a given limit (Debt and Securities).

ADR - American Depository Receipt.

ADR - Automated Dividend Reinvestment.

S - No Option Offered (in stock listings of newspapers).

S - Split or Stock Dividend (in stock listings of newspapers).

SB - Savings Bond.

SB - Short Bill.

The same term may have a different meaning in the context of another culture. For example, *depository* in Ukraine holds a position for its own benefit in a security, unlike the depository in the USA. Calculations of the value and cost of stock and securities can also be different in different financial cultures.

Thematic Glossaries of modern financial terminology may help the users to compare the conceptual and terminological systems used in different cultures, detect the similarities and differences in the use of concepts and terms, and to bridge the concepts and terms in parallel conceptual structures or to introduce new concepts and terms reshaping the existing system of knowledge and changing the old practices.

Conclusion

The research results showed that one of the best ways to mitigate the cross-cultural differences in financial terminology is to introduce the terms used in each branch of finance in context with other working terms serving to communicate meanings and ideas. Precise definitions and illustrations of what stands behind the terms in a particular sphere of application in American English can give the opportunity to notice different interpretation of the same terms in different areas of finance and in different economic cultures and traditions.

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