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EDITORIAL COMMENTARY

Rumors and the Financial Marketplace

In the contemporary financial marketplace, the consequences of speculation and decision making based on unfounded assertions and false rumors can be especially potent and undeniably dangerous. With the emergence of the Internet and other new communication technologies that facilitate the spread of misinformation, it has become essential for managers, investors, and other stakeholders to acquire a better understanding of the forces that give rise to rumors and the most effective strategies for dealing with them. This paper describes how the uncertainties and anxieties generated by ambiguous situations, coupled with a strong desire for information, can frequently lead to the generation and spreading of rumors in business environments. Although relatively little research attention has been paid to the particularities of financial rumors, the author identifies some key characteristics that appear to distinguish financial rumors from rumors about other aspects of business operations, such as greater conciseness, a shorter life cycle, and the potential for significant economic consequences. The paper concludes with a set of recommendations for future research and for actions that can be taken to minimize the potentially harmful effects of financial rumors.

As many managers are no doubt well aware, rumors represent an imposing competitor in the marketplace of information exchange. Virtually every type of company is plagued from time to time by the spread of unverified stories and questionable information about its operations, the existence of which is fueled by the underlying uncertainties and anxieties that characterize the contemporary business and economic environments. Most of these stories are relatively harmless, drawing little serious attention and quickly fading away before developing into something more formidable. However, sometimes the situation festers and takes on a life of its own, and what may have started out as a seemingly innocuous assertion evolves into a full-blown whispering campaign that spreads quickly and uncontrollably.

Whereas rumor has always been part and parcel of the business landscape, its predominance in contemporary financial affairs has grown dramatically along with recent technological developments. Information available to each of us at any particular time has expanded exponentially over recent decades. As Richard Saul Wurman pointedly observed in his 1989 book *Information Anxiety*, "a weekday edition of *The New York Times* contains more information than the average person was likely to come across in a lifetime in seventeenth-century England." This is perhaps nowhere more evident than in the world of business and finance. A brief look at a Reuter's financial market screen will provide many times the information one would ever need.

In this context, with any desired bit of information instantaneously available with a click of a computer mouse, we might expect that rumors, which traditionally have flourished during periods of news blackouts and information famines, would be a thing of the past. Ironically, the opposite seems to be the case. In contemporary society, rumors circulate like the air we breathe; more and more, they seem to arise not from a lack of information, but within a context of information overload. As demands for greater access to news and instantaneous communication continue to grow, the reliability of any one piece of information has become that much more difficult to assess. Indeed, the veracity of much publicly-circulating information has become progressively more suspect as the capacity for its rapid and widespread flow has expanded. In many cases we do not know whether the facts have been verified and often we do not even know where the information originated. Lacking the identity of the true source, we are left with the thorny task of discriminating reality from fiction, truth from non-truth, fact from rumor.

There is perhaps no other context as persistently fraught with the preconditions that predict the emergence and spread of rumors than that of finance. In recent years, the frequency of financial rumors reported as fact through various media outlets has shown a steady rise. Perhaps not surprisingly, a quick search of the Web for marketplace rumors during any given week typically will result in an abundance of hits. For example, an Internet search conducted during early

August 2003, revealed a continuation of the Internet buzz concerning the rumored acquisition of Sun Microsystems Inc., a report that Anheuser-Busch may be buying the Sara Lee Bakery Group, and a message board discussion focused on Gillette's interest in finding a buyer for Duracell, among an array of stories pertaining to smaller and more localized firms.

The Proliferation of Financial Rumors

With the emergence of the Internet and other electronic technologies that enable the instantaneous spread of information, the management of marketplace rumors has become more of a challenge than ever before. According to a July 2002 estimate, more than 3,800 new Web sites are created each day, more than 600,000 pages of HTML files are added daily to existing sites, and more than 250,000 new messages are posted to Usenet news groups (CyberAlert, 2002). Monitoring this overwhelming amount of information for accuracy has become a daunting, time-consuming, and expensive task for companies, even with the aid of public search engines such as Google, Yahoo!, GuruNet, and AltaVista.

The images of neighbors sharing rumors across the picket fence separating their backyards or passing along a story in a serial chain of telephone calls (as depicted in Norman Rockwell's famous painting "The Gossips") no longer suffice to adequately characterize the much more complex ways in which information spreads in contemporary society. Today, a rumor can be disseminated almost instantaneously by a person with minimal computer skills through the click of a mouse and, within a span of several hours, a company can experience disastrous financial consequences as a result.

An example of how an unconfirmed story may be reported as news involved a false report that was intentionally planted about the financial standing of Emulex, the California computer networking equipment manufacturer. On August 25, 2000 a bogus press release reported that Emulex was under federal investigation by the Securities and Exchange Commission (SEC), that it was revising its quarterly earnings to show a loss, and that its chief executive had resigned. The story about the SEC investigation, in particular, spread like wildfire on various Internet message boards and, not surprisingly, the false reports had a devastating impact on Emulex's stock, causing it to plummet as soon as markets opened (Goldstein & Carrel, 2000). The impact of the unconfirmed news was swift—Emulex stock plunged more than 50 percent within 15 minutes of the story hitting wider distribution. Specifically, the company's shares fell as much as $68, or 61 percent, which represented a loss of $2.45 billion in market value. By afternoon, trading was halted once news of the hoax was discovered and the company mounted a public relations campaign and issued denials in a desperate attempt at damage control. Although the stock recovered much of its losses by day's end as exposure of the fraud received widespread media coverage, Emulex shares nonetheless had fallen 6.5 percent Friday (the day the hoax appeared) and another 5.9 percent Monday ("Echoes of a Hoax," 2000).

Ironically, some financial analysts concluded that Emulex was not substantially harmed by the hoax and actually may have benefited from it as a result of the national exposure the company received in its aftermath. However, the Emulex case highlights the growing influence of information technologies and the competitive nature of public relations and news wire services. Despite controls, in their rush to beat the competition with apparent breaking news, the financial information services in this case failed to verify the accuracy of the false news release. The bogus press release about Emulex's market difficulties was instigated by a single individual, but spread instantaneously through the Internet and other electronic media.

The Emulex hoax hardly represents an isolated case; in fact, there have been several similar incidents in which fake press releases were posted directly onto on-line message boards. One year earlier, PairGain Technologies was subject to a fake Internet news story developed by an unhappy former employee suggesting that the company was about to be taken over. In this case, PairGain's stock jumped more than 30 percent, demonstrating how false rumors of this sort can cause stocks to soar. The fact that this does not happen more frequently has to do with the controls that are used by established news wire services; nonetheless, these recent stories reflect the high stakes and potential dangers of financial journalism, in which unconfirmed reports can induce unpredictable consequences for a company's stock before the truth catches up.

From the perspective of investors and other stakeholders in the financial marketplace, perhaps the most disconcerting aspect of these cases is how they illustrate new and especially potent mechanisms by which misinformation spreads in this new millennium. Although the financial standing of companies has risen and fallen on unconfirmed and sometimes bogus reports in the past, it is the diffuse and near instantaneous spread through newly emergent communication channels that most clearly distinguish the current financial environment from previous decades. As recently as 20 years ago, a false report like the one that targeted Emulex might have been disseminated from a single televised news program, thereby reaching a more limited and specialized audience. Assuming the validity of the report had not been vetted from the outset, an Emulex crisis management team would have had a much larger window of opportunity to respond to the story well before it had reached a larger audience or had a discernible impact on the firm's market standing.

How Rumors Start and Why They Spread

Given the many forms that rumors may take in business and other contexts, it appears that there is no simple explanation for why rumors emerge, why they tend to be believed, and why they are transmitted from person to person in spite of sometimes ludicrous or illogical content. Behavioral scientists and other experts who have extensively studied this form of interpersonal exchange have pointed to the involvement of collective and group needs, personal motives, and situational or contextual forces as being involved in rumor generation and spread (Kimmel, 2004).

Current evidence supports the long-standing notion that rumor represents a collective (i.e., social) phenomenon with dynamics that can best be explained as involving a combination of psychological and situational factors. This perspective was given impetus as a result of the ground-breaking work of social psychologists Gordon Allport and Leo Postman, whose seminal book *The Psychology of Rumor* (1947) stood for many years as a definitive treatise on rumor and rumor diffusion. Reflecting their focus on rumormongering during World War II, they viewed rumors as a critical aspect of information management during times of crisis and conflict. The results of their analysis led them to conclude that the transmission of a rumor is akin to a process of collective problem solving, and that rumors are set in motion and spread when there is ambiguity regarding the true facts surrounding a situation and when the theme of the story has some importance to both speaker and listener—their so-called *basic law of rumor.* In other words, personally involving situations that are marked by ambiguity or a state of doubt are psychologically aversive, and rumors can be seen as a group's effort to discern the true facts to obtain cognitive clarity and closure. In this sense, rumors are like hypotheses or tentative explanations after the facts.

Allport and Postman might just as well have had in mind rumors that appear in financial settings as those that emerge during wartime (the contemporary link between these topical areas notwithstanding) in developing their notions about the etiology of rumors. The variable of ambiguity, which is central to understanding the psychology of rumor, can be seen as synonymous with general or free-floating doubt evoked by a situation in which there is a need for information or cognitive clarity. As any market investor knows all too well, a widespread sense of uncertainty is part and parcel of the financial marketplace.

In addition to ambiguous and unverifiable elements, it also is now recognized that rumors are generated and transmitted when conditions are emotionally involving or fear-arousing for people (e.g., Walker & Beckerle, 1987). In essence, the anxiety induced by emotionally unstable situations provides a motivating force for rumormongering. Thus, it is understandable that rumors represent a logical outgrowth of a world in flux, to a large extent because fear is a natural outcome of a rapidly changing world that, for most people, has become progressively more difficult to fully understand. Applying some of these ideas to the business world, we can understand why rumors tend to be so prevalent within that context. According to social psychologist Ralph Rosnow (2001), rumors are a likely outcome when people are confronted with unexpected events or are challenged by the unforeseen consequences of anticipated events, such as mergers, takeovers, and changes in management. In his view, "the more perplexing these events, the more that people need to invent stories to put their anxiety to rest. . . and to furnish cues to guide their future behavior" (pp. 212-213). It is likely that the factors that have been implicated in the emergence and spread of rumors are intimately linked. As the uncertainty surrounding a situation increases, we might also anticipate a heightening of anxieties, and uncertainty becomes more difficult for people to tolerate under highly stressful circumstances.

What keeps rumors going once they begin to circulate? One factor that appears to serve as a critical triggering mechanism for rumor diffusion is the degree of believability or "credulity" in the rumor. That is, unless rumors are believable or at least somewhat plausible to their recipients, they are unlikely to be passed along to others. In fact, when a rumor is received, one of the first steps the recipient takes before deciding whether to pass the message on is to evaluate its credibility or trustworthiness (e.g., Kimmel & Keefer, 1991; Rosnow, Yost, & Esposito, 1986). If the rumor has been received from a trusted source, chances are that the recipient will be less skeptical about the story's veracity than if the contrary is true, and more willing to accept any evidence, no matter how weak, to establish a level of belief. Repetition tends to foster belief, so the more times a rumor is received, the more likely it will be evaluated as credible.

These conditions pertaining to credibility clearly were in play following the emergence of the Emulex hoax. The hoax was initiated by an e-mail message that had been forwarded to Internet Wire, a Web-based news dissemination service, by a vengeful former employee of that service. The e-mail contained a release from a fake public relations company describing Emulex's supposed difficulties, and included phrases commonly used by the wire service suggesting that the contents of the story had been verified earlier. As a result, the Internet Wire staff did not feel it was necessary to further check its accuracy. In their rush to report a major financial story, the story was immediately picked up and transmitted by leading financial news wires, including Bloomberg News and Dow Jones Newswires, as well as the cable news channel CNBC and numerous Web sites (Goldstein & Carrel, 2000). This combination of events added to the perceived plausibility of the story.

The Nuts and Bolts of Financial Rumors

It is apparent that financial rumors have much in common with other business-oriented rumors, yet a closer analysis reveals some important differentiating characteristics. Although further research is needed, it appears that anxieties linked to long-term, underlying fears may be less likely to serve as the primary impetus for a majority of financial rumors; rather, it is the short-termed uncertainties of the moment or the questionable veracity of information received via informal channels that appear to be key. In other words, financial rumors are so prevalent in large part because of the strong interest that stakeholders have in knowing what is going to happen next and what the consequences of those events may be. This suggests that a key determinant as to the market impact of financial rumors is their information-bearing function and the apparent credibility of information at hand.

Some indirect evidence for these ideas was obtained in a preliminary survey investigation involving 40 French consumer brand managers and communication specialists that I recently conducted with marketing professor Anne-François Audrain (Kimmel & Audrain, 2002). The results of the study in part revealed that the variables of importance (of rumor content) and accuracy (how truthful the rumor turned out to be) were the strongest determinants of the frequency of marketplace rumors reported by the respondents, with anxiety apparently having played an important, albeit secondary, role. Although the survey investigation was not specifically focused on financial rumors, a majority of the rumors reported by the respondents pertained to mergers, takeovers, and the stock market. Another interesting finding that emerged from our study was that rumors that ultimately proved to be true were characterized by our respondents as having become more precise as they were transmitted, in contrast to false rumors which grew progressively more distorted.

Because of their greater conciseness, shorter life cycle, and potential for significant economic consequences, financial rumors may be less prone to a common tendency that occurs during the life cycle of other kinds of business-oriented rumors. For non-financial marketplace rumors, it has been observed that rumor allegations and company targets tend to be somewhat interchangeable, and allegations originally involving smaller companies or lesser known products often shift over time to larger and better known targets (Koenig, 1985). This was the case with regard to the rumor that McDonald's was putting worms in its hamburgers in order to boost the protein content, a rumor which first was linked to Wendy's and only later became associated with McDonald's. In fact, larger and better-known firms frequently serve as rumor targets and rumors tend to shift from smaller to larger companies because greater attention typically is paid to the content of the story than to the target, and the names of market leaders are more likely to be retrievable when a rumor is transmitted. When it comes to the financial trading environment, however, the target of the rumor is likely to be as important a detail as the content of the allegation and thus careful attention is apt to be paid to both.

Variations on a Theme: A Typology of Financial Rumors

Financial rumors are likely to emerge daily concerning corporate acquisitions and takeovers, mergers, and stock movements. These sorts of rumors are such a persistent phenomenon in the world of finance that in recent years numerous mass media outlets have been created specifically to report them, including the *Wall Street Journal*'s "Heard on the Street" and "Abreast of the Market" columns, *Business Week*'s "Inside Wall Street" column, and *SmartMoney*'s Web site, to name a few. In most cases, the speculation generated by these unfounded stories never pans out, which does not mean that they do not cause a reaction on the market (La Monica, 1999a). According to some analysts, it is less of a gamble for investors simply to follow trading patterns for a takeover target, for example, than to rely on takeover rumors. This is because savvy traders who believe that a rumor may have some merit are more likely to buy call options relative to the targeted company. These options to buy in at a fixed price tend to have a higher return than the actual stock.

Based on their content, it is possible to distinguish three main types of financial rumors, depending on whether the rumor concerns companies, people, or the economic and political environments.

Company-Based Financial Rumors

These are unverified allegations that directly concern the financial behavior of certain firms, as when company X is rumored to be readying a takeover bid on company Y. In mid-July 1999 just such a story emerged when the beleaguered drugstore chain Rite Aid was rumored to be on the verge of selling out to Wal-Mart. Almost immediately, Rite Aid's stock gained nearly 7% on a slow trading day, despite the fact that if people had taken the time to assess the rumor's veracity they would have recognized that its claim did not really make much sense (La Monica, 1999b). Another example of a company-based financial rumor appeared in October 2000, when Deutsche Bank AG shares fell 7% on the heels of a rumor that it had lost $1 billion on a junk-bond deal that had soured ("Junk-Bond Rumors," 2000).

People-Oriented Financial Rumors

This second category of financial rumors focuses on personalities in the business world whose activities could have implications for the economic stability of their firms or financial markets in general. These rumors might describe a director's decision to step down from a post, internal dissension among the rank-and-file, conflicts between the main shareholder and CEO, and the like. Such was the case when a story began to circulate that the database software giant Oracle's chief financial officer was unhappy with the firm and about to leave. Such speculation was determined to have caused a drop in Oracle shares of as much as 15% on the NASDAQ, which responded by voiding some "erroneous" trades that occurred among confusion surrounding the rumors ("Oracle Hit," 2000).

Event-Oriented Rumors

This type of financial rumor is dependent on events occurring in the economic and political environments. Any number of events in these arenas can pose a threat of instability capable of influencing trading activity on the stock exchange, including speculation about the health of world leaders, elections, coffee production in Brazil, and so on. For example, reports appearing in a Chinese financial newspaper in early February 2004 maintained that the central bank was poised to revalue the yuan by as much as five percent over the next few months. Such speculation raised hopes within financial contexts in the United States of a smaller trade deficit and a slowing of the loss of manufacturing jobs to China (Porter, 2004).

In another case, the rumored return to professional basketball by Michael Jordan in 1993, after his initial retirement from the game, resulted in investor actions that significantly increased the stock market value of firms whose products were endorsed by Jordan. Marketing researcher Lynette Mathur and her colleagues (Mathur, Mathur, & Rangan, 1997) examined the impact of rumors of Jordan's impending return to basketball on the profitability of five of the top firms having products endorsed by the athlete: General Mills (Wheaties), McDonald's (Quarter Pounders, Value Meals), Nike (Air Jordan), Quaker Oats (Gatorade), and Sara Lee (Hanes Underwear). Because these firms were in mature markets with limited growth potential, the investigators assumed that the positive outcomes of the rumors for these client firms would best be revealed through a consideration of the market shares of competing companies with non-Jordan-endorsed products (e.g., Kellog, Wendy's, Coca-Cola, Reebok). To test this, the authors utilized an approach known as *event study methodology*, which identifies the valuation effects of marketing decisions.

With this method, it is presumed that investors evaluate and use all relevant new information that comes to them prior to making an investment decision. While most of this information will not be considered significant enough to influence their investment strategies or stock prices, occasionally some new information will be received that seems important enough to influence the assessment of investment strategies and subsequent actions. Information that is viewed positively tends to lead to investor buying that serves to increase the price of the stock, whereas negatively-evaluated information puts downward pressure on stock prices. In short, the Mather et al. findings were consistent with expectations: investors of Jordan's firms reacted very favorably to rumors of his anticipated return to the NBA and, coupled with his increased visibility in the media, this resulted in an average increase in the market adjusted values of his client firms of more than $1 billion (2%) in stock market value. A corresponding negative reaction to the rumors was noted for the stock prices of non-Jordan firms.

Consequences of Financial Rumors

Whatever their specific nature, financial rumors serve an important function for traders in a context where new information is highly valued. It is presumed that any change in price or volume of sales for stocks, bonds, or commodities should only come in response to new and relevant facts about such things as changes in competitors' pricing structure, fluctuations in interest rates, labor difficulties, takeover activity, announcements of layoffs, new products, and related factors. For traders to profit from new information they have to respond before the rest of the market receives the news. Thus, in the financial marketplace, the pressure to respond quickly and its attendant anxieties lead to a ready body of consumers for indications of future events. Such a situation is particularly conducive to the reception of rumors, which frequently bear messages of managerial decisions and market activity that have not yet been publicly announced. Given that the Internet and other recent technological advances in communication have sped up the required decision-making process, unverified information must be evaluated and reacted to with greater alacrity than ever before.

As expected, even respected vehicles for market information, such as *The Wall Street Journal,* frequently carry rumors of profits or losses and managerial decisions not yet publicly announced. Although efficient market theorists refer to those who trade on rumor as "noise traders," there seems to be little doubt that markets are in fact responsive to such communication. Market researchers have found that the price of a stock reacts significantly more to "tips" and recommendations when in a bear market than when the market is stable (Schachter, Hood, Andreassen, & Gerin, 1986). More generally, financial rumors appear to have their greatest impact on price-induced volatility by causing unidirectional departures from randomness (DiFonzo & Bordia, 1997). In other words, prices linked to rumor-based trading tend to get 'stuck' in an upward or downward trend; that is, they become anti-regressive. This tendency for rumors to cause deviations from randomness is apparent, for example, when a takeover rumor published in *The Wall Street Journal* is followed by a significant short-term price run-up.

In today's global marketplace, traders have grown increasingly desirous of information pertaining to potential takeover targets. In recent years, analysts and researchers have scrutinized the influence of takeover rumors on trading activity. For example, one study carried out at Harvard's John F. Kennedy School of Government assessed the impact of 42 takeover rumors appearing in *The Wall Street Journal* (WSJ) column "Heard on the Street" from 1983-1985 (Pound & Zeckhauser, 1990). An analysis of investment opportunities, based on an examination of a one-year buy and hold trading strategy following the rumor publication date, revealed insignificant risk-adjusted excess returns. This finding led to the conclusion that the market reacts efficiently to rumors.

In a related study, Zivney, Berin and Torabzadeh, (1996) examined nearly 900 takeover rumors for the period 1985-1988 by additionally considering those appearing in the WSJ column "Abreast of the Market." Their results similarly revealed evidence that the market reacts efficiently to initial rumors, showing negligible excess returns in the post-rumor period. Interestingly, however, the investigators found different market reactions depending upon the newspaper column in which the rumors appeared. Short-term overreactions in the market were associated with the "Abreast" column as opposed to rapid price stabilization following rumor publication in the "Heard" column. Based on their analyses, the authors concluded that shrewd investors would stand to benefit not by buying on the rumor date and holding for some period of time, but by short-selling on rumors appearing in the "Abreast" column for a post-rumor period of about 100 days. On this basis, traders could expect a 20% annual excess return with about 70% of the trades being profitable.

In addition to their information function, the content of rumors can serve to have an impact on financial markets by influencing sentiments of optimism or pessimism. The influence of consumers' optimism or pessimism about the future on their willingness to make purchases is well-known in most business circles. Additionally, as the Michael Jordan rumors illustrate, it also is clear that the stock market reacts to headlines of positive or negative events, even when the events are not directly linked to financial affairs. It seems reasonable to expect rumors, which typically bear content reflecting hoped-for or feared future events, to influence consumer and trader sentiments accordingly.

Rumor Control Strategies

Given that rumors are about as much a part of business life as profits and losses, it is virtually inevitable that managers will be required to initiate efforts to deal with them at one time or another. In fact, the management of rumors should represent a basic component of day-to-day business operations, rather than merely something that is considered in crisis situations, which is currently the modus operandi for most companies.

Short of ignoring a rumor and hoping it will disappear on its own, most successful approaches to dealing with marketplace scuttlebutt require the establishment of an atmosphere of trust and credibility among the firm's various publics. In so doing, investors, employees, and the general consuming public will be less likely to accept (or to act on) rumors that are contrary to the best interests of the firm. Although this is easier said than done, the following recommendations should serve managers well for either avoiding the sting of potentially harmful rumors or else reducing the damaging fallout from rumors that cannot be prevented.

1. *Engage in credible public relations (PR) efforts.* Public relations represents one of the most effective means by which companies can garner trust and minimize the likelihood they will be targeted by false and malicious rumors. When a firm engages in activities designed to obtain favorable publicity, to build a strong and positive corporate image, and to strategically communicate with its various stakeholders, these activities not only serve to accomplish more general PR objectives, but they also minimize the likelihood that false and potentially damaging rumors about the company will emerge or be believed.

2. *Be vigilant.* Financial rumors should be considered the norm rather than the exception in the contemporary business environment. Marketing managers and other company personnel should expect to encounter harmful rumors at any time and must remain vigilant to that possibility, while at the same time recognizing that certain rumors can be exploited for the firm's benefit. In either case, the window of opportunity will be open only briefly. A variety of changes in the marketplace might represent early signs of a rumor problem and should be regularly monitored, including tracking variations in sales volume and market standing or sudden shifts in customer complaints, Web site visits, and turnover rates in the sales force.

3. *Designate rumor monitoring and control officers.* Another method for early rumor detection and monitoring is to appoint certain company personnel as rumor control officers (RCOs), who would have the role of keeping an ear to the ground in an effort to detect

early signs of potential rumors. RCOs can also be assigned the task of maintaining sensitivity to any company policy changes, marketing actions, and other business practices that could be misinterpreted or picked up on as potential rumor-causing issues.

Given that the Internet and other emerging technologies have begun to alter the rumor environment, especially in the sense of speeding up the means by which falsehoods can be transmitted to vast audiences, it should be recognized that they also can be used by rumor targets to rapidly disseminate rebuttals, corrections, clarifications, and evidence. At the same time, other Internet sites can be regularly scanned for malicious, misleading, or otherwise distorted references to the firm.

4. *Develop a crisis management plan.* Assuming a potentially harmful rumor begins to circulate, the firm should be prepared to launch a crisis management plan. Effective crisis management plans tend to be characterized by four key components (Yeshin, 1998): *speed* (the effective handling of a crisis requires an immediate response to the situation); *accuracy* (the response to the crisis must be based on verified information rather than speculation and "gut" feelings); *credibility* (spokespersons must have high perceived believability and trustworthiness; the fewer retractions of previously delivered information, the more likely company officials will be perceived as credible); and *consistency* (all official spokespersons should speak with a common voice). Another element of a crisis management plan that often is overlooked is the necessity for the firm to anticipate the role of the media. A planned strategy for enlisting the media as partners in the fight against false rumors at the outset of a crisis could be helpful in undercutting the possibility that the media will simply add to the problem once the situation begins to get out of control.

Although it is essential that each firm formulate an approach for dealing with rumors, there is no foolproof plan for preventing or neutralizing rumors that can guarantee success for different kinds of companies or varying circumstances. However, by following some of the recommendations outlined above, a firm stands a far better chance to be able to defuse a potential rumor crisis or else convert it into a news story about a malicious, damaging, false rumor that is unfairly targeting the company's financial well-being.

Conclusion: Toward Developing A Research Program

Although behavioral scientists have learned much about the nature of rumors it is surprising that financial rumors have received relatively little research attention in their own right, especially considering their potential impact for firms and a variety of stakeholders. In light of rapid developments in the way information spreads in the contemporary business and financial environments, and given certain characteristic differences that distinguish financial rumors from non-financial ones, it is clear that further scrutiny and reexamination of the underlying dynamics and transmission of financial rumors is warranted.

This paper points to several aspects of financial rumors that could provide a focus for future research, including the following:

1. *The relative influence of underlying psychological forces that give rise to financial rumors.* Preliminary findings suggest that emotional factors may be less relevant than cognitive ones in stimulating the financial rumor process.

2. *The processes by which financial rumors change (if at all) during the transmission process.* The shorter life span of financial rumors and the greater pressure for rumor recipients to act on their content suggest that such rumors are likely to become more concise and verifiable as they are disseminated.

3. *The influence of rumors on trading activity and price changes.* The few investigations that have been conducted to date suggest that the market reacts efficiently to rumors, although the conditions under which this is not the case need to be more fully investigated.

4. *The influence of rumors on consumers and market professionals.* Little is known about how consumers and market professionals respond to financial rumors (e.g., in terms of sentiments of optimism or pessimism and the extent to which experience with prior rumors influence reactions to subsequent ones).

These areas represent a starting point toward the development of a systematic program of research that ultimately could prove particularly fruitful for managers and other business-related stakeholders who, more than ever, are faced with a particularly amorphous, slippery, and potentially dangerous competitor in the financial marketplace.

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