Rumor is not a crisis; it is a challenge to improve

Diana Dolmatova

ANR: 908324

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Supervisor: A.J.A.M. Naus

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Abstract

'Rumor' is a short and simple word for long and persistent troubles. It is capable of making one worry and of destroying the years of effort in one blink. Now more and more attention is brought from war and political rumors to a business world, where it is abundant. So many reputations have suffered this indignation, and not all of them were able to come unscathed out of the battle. It is unsettling to become a victim of rumor. Therefore, more and more strategic solutions have been found. However, when the rumor comes, there are only two things to do – deny it or accept it, fully or partly. It is head or tails, one or zero – one cannot use both, but have to choose one. To be able to decide properly on the strategy, this thesis is going to provide the possible solutions for combating the rumor and securing the reputation of the company at the same time.

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Chapter 1 Introduction

A soft drink that makes black men sterile, a candy that will burst in the stomach, medicine that kills or change of management that will come together with layoffs - this and many other rumors occasionally appear in the business world and more or less influence reputation of a company. The necessity to talk about these issues not only in private, but also in scientific context will be farther discussed.

1.1. Background

Interestingly, a rumor as a subject of research appeared in the scientific field only in the 20th century. At the same time, this phenomenon has been always known to people of various ages, cultural or educational background. World War II with its war rumors became a trigger for all subsequent attempts to understand the phenomenon that everyone knows in general, and does not know in details. Thus, the rumor is a relatively new research subject, and only in the last decades the attention from the war and political rumors started to switch towards the marketplace rumors that affect reputations of companies.

Although, the environment of the rumor dwelling has been switched to the business world, the main goal of studies has remained the same. Mostly, the rumor research is done to understand how the rumor works, with a hope that it will help to manipulate the rumor. Thus, the rumor research is usually about the control of the rumor.

1.2. Aim of Research

The main aim of this paper is to see that rumor is not as uncontrollable and unpredictable as it might be perceived. This understanding comes from seeing that the rumor is a neutral term, neither positive nor negative. The techniques of combating the rumor are also important, because they give a feeling of control and can stop the damage to the reputation. It is necessary for turning the crisis around and making the opportunity out of the unfortunate situation. In other words, the goal of this research is not in mastering manipulation techniques, but in understanding how the crisis can be prevented with no or little damage to the reputation.

1.3. Research Questions

Though it might be hard to conceive at first, but the rumor is a neutral term that becomes positive or negative relatively to the target and the audience of the rumor. For this reason, the rumor as such is not the one that brings the crisis to the company and damages its reputation. It is the company's actions that out of the rumor create a crisis or opportunity. Knowing the enemy is the best way to fight it; therefore, the first research question addresses the nature of the rumor.

Furthermore, one cannot fight a decent battle without knowing oneself. Thus, the target of the rumor, i.e. the reputation of the company is another question that is addressed in this thesis.

Besides, to win a battle the knowledge of a battlefield is always an advantage. Therefore, one should understand how the rumor operates in the sphere of the media, i.e. the rules of the media game are addressed in the third question.

Finally, the answers to the previous three questions contribute to the formation of strategies that can be of use in crisis prevention triggered by rumor. That will allow focusing on reputation

enhancement, rather than on its cleaning. Hence, the final question asks how to deal with rumors to prevent the further decline of the company's reputation, when the damage has occurred or is about to occur.

1.4.   The Importance of Research

Despite the neutrality of the rumor, it might be fully blamed for causing the damage to the reputation, i.e. the burden of responsibility for the outcome is on rumor, rather than on a company. Rumor is usually perceived as simple and insignificant at first glance, yet capable of turning into a monster that will eat a company alive without even a blink of an eye. It is like reading 'rumor' from back to forth and getting 'romur' instead. Sounds somehow familiar and the number of letters is the same, but completely different and meaningless in the end. Moreover, it does not matter if the rumor is believable or not, as long as it continuously appears in the media it will do a trick and affect the reputation of the target company. Indeed, it is the way rumor works, but one aspect of rumor is usually ignored, i.e. rumor can change, but it follows a predictable pattern (Garcia, 2001). Thus, it is important to see that rumor is just a situation and it has nothing to do with the outcome, the main responsibility lies on the company itself.

Equally important, the guidance in times of perceived crisis is necessary for achieving better results. As a matter of fact, unexpectedly appeared rumor can make people panic (Garcia, 2001), especially if management is inexperienced and it is a new challenge for them to overcome. This can lead to inaction in times when the proactive behavior is crucial. To illustrate, due to the lack of experience in dealing with rumors management can simply overlook a seemingly absurd statement, which will strike very hardly afterwards. Even though, every

situation is unique, a manual that would recommend the best actions in particular situations would be of great help to managers.

1.5. Thesis Structure

The whole thesis is divided into six chapters that introduce (Chapter 1) and gradually develop a problem statement and lead to concise conclusion.

The Chapter 2 will shortly discuss the research method and data collection process, as well as the reasons for choosing this approach.

The findings will be introduced in the Chapter 3, where according literature will be briefly discussed. That will help to gain more insights into the topic and will make the reader more acquainted with the previous researches in this field.

Chapter 4 will provide some examples of the companies that faced the rumor crisis and how they dealt with the situation. Also an analysis of their actions will be offered.

After that, several recommendations will be disclosed in the Chapter 5. It will present various useful strategies that can be applied for rumor prevention or cessation.

Finally, this thesis ends with the Chapter 6 that consists of general discussion and a short conclusion.

Chapter 2 Research Method and Data Collection

This chapter will discuss the selected research method and the reason behind it.

2.1. Research Method

This thesis follows an exploratory research design because it deals with a problem that is still vaguely defined and requires more research in the future.

This research can be also considered as secondary research, which means that secondary sources are used to answer the proposed questions and find a solution for a problem statement. No original data were collected to fulfill the thesis.

In addition, this thesis exploits qualitative research components that seek the understanding behind the rumor phenomenon – how it works and how to deal with it. It does not deal with a big database and is more based on secondary literature and case studies.

Finally, this thesis might be useful for an appreciative inquiry approach that focuses on the problem re-classification, i.e. it acknowledges the fact that many 'problems' are just perceived as such and by changing the mind-set the problem might disappear as well (McNamara).

2.2. Why this Research Method?

Unfortunately, it is not necessary the best research method used for answering the problem statement. Because it is intended more for practical, rather than theoretical use, more empirical research would be advisable. However, the limited possibilities and budget of conducting the research were determinative in choosing the method that could give the more or less exhaustive and reliable results.

2.3.   Data collection

All the information is mainly derived from the secondary literature and only when necessary to get the more recent or more exhaustive information additional sources were advised.

2.4.   Validity

The research is intended to discover the best strategies in dealing with rumor in particular circumstances. The results provided is not an attempt of educated guess, but an aggregation of various results, supported by the secondary literature.

2.5.   Reliability

This research is based on previous attempts to deal with rumor in the marketplace. As a result, it is based on the secondary literature. The chosen literature is mainly from scientific journals and books, which can be regarded as credible and scientific sources. Some of the websites were also advised to gather additional information. The fact that it is harder to determine the reliability of information on the websites was taken into consideration when deciding to refer to the source or not. That is, the information was taken from the websites that are regarded as credible, or from specific and relevant to the issue websites. Any suspicion can be checked by turning directly to the website of high-interest or distrust.

2.6.   Repeatability

By using the same method and the same literature, it is more likely that the overall results will be repeated despite time or place. However, the focus points and flow of thoughts might change because of its subjective nature.

Chapter 3 Literature Revision

The following chapter is going to discuss the literature with regard to the previous findings in the fields of rumor and reputation, as well as a theory of news circulation in the media.

3.1.   Rumor

3.1.1. Rumor as a type of WOM

Humans are social beings that have to interact on a daily basis for various reasons and one of them is for getting information about the world around them. The basic unit of interaction is communication. Especially valuable is face-to-face communication, because it can provide immediate feedback and other helpful hints such as body language. This type of communication can be also referred to as word-of-mouth communication (WOM) (Lam, Lee, & Mizerski, 2009). The phenomenon discussed in this paper – rumor – is also a type of WOM. Thus, rumor is not something exceptional, but rather an inevitable co-product of the people's interaction.

There are several important characteristics of WOM that make it one of the exceptional communication approaches. Firstly, as the name already suggests, WOM is oral communication of information from one person to another. Though, nowadays WOM can happen via computer mediated communication (CMS) as well (Bordia & Rosnow, 1998). Secondly, WOM is not commercial communication of information (Lam, Lee, & Mizerski, 2009), which is the reason why people are more inclined to trust it. The fact that WOM is not for commercial purpose implies that it does not have any underlying motive behind the information transmission; it only shares the experiences and opinions without the purpose of persuasion to certain action such as buying. Therefore, WOM is an important reference source in a decision-making process. Before

buying goods or using services, people tend to gather more impartial and helpful information that would provide valuable insights without trying to persuade them to make a certain decision. People want to believe that they are capable of making decisions on their own and are not kept on the string. Thus, WOM is perceived as an unbiased piece of information (Lam, Lee, & Mizerski, 2009). Even though it is not entirely objective, it is sincere and exhaustive.

On the other hand, these WOM qualities presuppose that provided information is not supported by substantial evidences. Therefore, the most trusted WOM are assumed to come from the closest people (Lam, Lee, & Mizerski, 2009). That is, from people who are closer to the WOM recipient in his/her social network, e.g. from the family or close friends. However, it does not mean that only in-groups are channels for WOM, out-groups are also considered to be of high importance (Lam, Lee, & Mizerski, 2009), since together both in- and out-groups help to gather more information and draw better conclusions before making a decision. All this makes the WOM one of the main factors that has an impact on the consumer's choice of buying product or using a service (Kamins, Folkes, & Perner, 1997).

In fact, there are different surveys that try to measure and find the importance of WOM. All of them provide slightly different numbers, but overall results suggest that around 70-90% of purchasing decision-making depends on WOM (Kamins, Folkes, & Perner, 1997; Farrant, 2012; Dubois, Rucker, & Tormala, 2011). That is why, a global head of advertiser solutions at Nielsen, Randall Beard, pointed out that many companies are diverting more and more their attention to social networking sites (Farrant, 2012) to use WOM as advertising strategy.

That is already significant enough reason for WOM being considered by management of any company. However, there are other valuable consequences that are created by positive

WOM, including positive rumor, and might be affected by negative WOM, including negative rumor. Firstly, WOM is essential for the successful brand diffusion and product promotion in the society, provided that WOM is positive (Lam, Lee, & Mizerski, 2009). It is essential for business, because positive WOM reduces costs related to marketing activities (Lam, Lee, & Mizerski, 2009), since it is one of the best recommendation practices in the society (Farrant, 2012). Nevertheless, it might be a disaster and significant financial loss, if negative WOM infiltrates the campaign. In that case marketing activities that generate WOM through traditional advertising methods (Lam, Lee, & Mizerski, 2009) or by special techniques applied in media such as mimicking WOM by making 'common people' give their opinion about the product or service, that is, artificially created WOM will not be of much help, because only small proportion of WOM is generated by such efforts (Lam, Lee, & Mizerski, 2009). Thus, the negative rumor might be perceived as more informative and reliable, yet damaging to the company.

Secondly, WOM is responsible, at least to some extent, in innovation diffusion (Lam, Lee, & Mizerski, 2009). It is always risky to purchase a new product or use unknown before service, because the results might be unsatisfactory. Moreover, in abundance of advertising, it is hard to differentiate companies and even harder to see what the product or service is capable for. Thereby, consumers use WOM as a tool to process information and lessen the anxiety by hearing from others, who used the service or product before. Thus, the innovation diffusion in the society might be affected by rumor for the better or worse.

Apparently, a positive WOM is capable of helping the company, and negative WOM is capable of interfering with the company's plans. That is, negative rumor can damage the reputation of the company, which might cause the decline of the company's profit. However, there is some consolation: rumor is found to be a less important and less trustworthy type of

WOM (Kamins, Folkes, & Perner, 1997), which has a relatively low possibility of being transmitted further. Only about 30% of received rumors have chances to be conveyed to other people or sources (Kamins, Folkes, & Perner, 1997).

Paradoxically, the transmission level of rumors is not high, yet consumers tend to use WOM more as an expression of dissatisfaction (Kamins, Folkes, & Perner, 1997), which means that there are higher chances for negative rumor to circulate, rather than for a positive one. It is understandable though, since not so many products or services may provide a positive and overwhelming reaction, yet a little bit of dissatisfaction triggers the need to express the frustration. To illustrate, nowadays the source of irritation might become a fact that one has to wait for the website to download, and if it is not an instant process, but requires some five seconds more, it is enough to suggest friends never to use this internet provider. Thus, negative rumor might become a reason for switching from one company to another (Lam, Lee, & Mizerski, 2009), which makes rumor go beyond the marketing concerns; it becomes a matter of the overall company's management.

In addition, there are attempts to see if culture influences the WOM process, since it is assumed that different groups should attend to different channels, by which WOM is transmitted, for more efficient information transmission (Lam, Lee, & Mizerski, 2009). Thought it might be important to sociology, it is not so significant to rumor management. It does not really matter where exactly the rumor is communicated and whether it is communicated through face-to-face groups or CMS. Once it is done, it is done. Once rumor is spread it appears in every possible type of the media regardless of culture. For example, the fact that individualistic cultures are more likely to spread WOM to out- rather than in-group, or masculinity culture prefers to do it vice versa (Lam, Lee, & Mizerski, 2009), can provide some information to marketing division,

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but is unnecessary to the overall management of the company. Therefore, there is no need to discuss that information in this paper.

3.1.2. A Rumor Definition

A negative rumor is a type of negative WOM, and positive rumor is a type of positive WOM. Therefore, all above mentioned aspects of WOM applies to rumor as well. That is, rumor as any other WOM is exchanged basically for groundless reasons, and the whole process of information exchange is dependent on trust between the communicators. Hence, rumor is a type of information that is not confirmed by reliable sources (Pendleton, 1998), and yet enjoys the benefits of being heard, even though rumor is quite fragile in consistency and can be easily distorted conveying even less accurate news, than it was at the beginning (Einwiller & Kamins, 2008). Although, people tend to pass information that is more likely to be true, the 'truth' is decided on the basis of personal belief. Every time rumor reaches one person and is transmitted to another it goes through the cognitive filter (Einwiller & Kamins, 2008) that helps to decide what to transmit and what not. Needless to say, every person has his/her own cognitive filter that might differ from each other (Einwiller & Kamins, 2008).

Furthermore, rumor can be deliberately created and exaggerated. It can be done by anyone since no proof is needed for rumor to be spread. For example, it might happen when competitors are responsible for a rumor generation, and the biggest part of marketplace rumors apparently emerges with that purpose (Lam, Lee, & Mizerski, 2009). It is not surprisingly, taking into account that a negative rumor can become a reason for brand switching. Companies compete for

clients and market share, and by creating negative rumors of the competitors they believe to win stakeholders over their rivals.

Throughout the various researches done on the rumor, various definitions were proposed. For example, rumor is "any report, statement, story that one may have heard or mentioned for which there is no immediate evidence available to verify its truth" (Rosnow, Yost, & Esposito, Belief in Rumor and Likelihood of Rumor Transmission, 1986). Or rumor is "belief or piece of information that is associated with high uncertainty and transmitted rapidly among people" (Dubois, Rucker, & Tormala, 2011). Eventually, all definitions agree that rumor is a form of persuasive message (Pendleton, 1998), intended for belief, colored by doubt, without supportive evidence, when reliable and official information is unbelievable or unavailable (Difonzo, Bordia, & Rosnow, 1994; DiFonzo & Bordia, 2002).

The last point shows that rumors can be compared to the "improvised news" (Difonzo, Bordia, & Rosnow, 1994). It is a very important association for understanding how rumor works and where to find it. As other news, rumors originate from collective worries (Difonzo, Bordia, & Rosnow, 1994), when means of finding the truth are desired by pubic, but the official news is unable or unwilling to provide information to reduce anxiety and uncertainty. Hence, rumors substitute the news (Pendleton, 1998).

3.1.3. Rumor components

According to the rumor definitions, rumor has to contain at least two components: uncertainty, unclear and unpredictable consequences, and anxiety, fear that a negative event will occur and good will not (Difonzo, Bordia, & Rosnow, 1994).

However, the discussion of rumor cannot be full, without mentioning the pioneers in rumor research. Allport and Postman (1948) have reduced the whole concept of rumor to a single formula that explicitly shows why rumor appears and for how long it might persist. The formula is:

$$R \sim I \times A$$

Where:

I is 'importance'

A is 'ambiguity'.

The relationship between these two variables is multiplicative, because if any of them is zero, rumor does not persist. Usually, it is explained by substituting I and A by numbers from 0 to 10, which depicts how important or ambiguous the information is on the scale from 0 to 10. Thus by reducing at least one of the variables, one can substantially diminish the rumor. By reducing any component to zero, i.e. making information irrelevant or providing all the necessary and troubling information, one can get rid of the rumor completely.

On the other hand, Chorus (1953) did not fully agree with that formula and tried to point out that it lacks an important c variable, which stands for human dimension, more precisely, critical sense. That is, social intellect affects the rumor transmission. If the rumor appears in the society with limited knowledge supply, e.g. indigenous tribes or shop floor employees, then the possibility of the rumor to persist longer and be more accepted is larger, then if the rumor is circulated among people in the group with bigger knowledge access, e.g. universities or investigation organizations.

Besides, another approach to the rumor constituents was presented by Koenig (1985), who stated that rumors consist of three vital components. Firstly, for the rumor to exist, it should have a target, which can be a specific person, location, place, thing or event. Secondly, it should contain the charge or allegation about the target. To be more precise, it should contain a reason for choosing a particular target. Finally, it should have the source, i.e. the authoritative figure that makes the rumor believable enough to communicate further.

3.1.4. Rumor VS Gossip / Rumor VS Legend

Such terms as 'gossip' or 'legend' are sometimes used as synonyms for 'rumor'. Nevertheless, these words describe different phenomena and should not be used as substitutes for 'rumor'. Therefore, it is important to understand the difference between these terms.

3.1.4.1. Rumor and Gossip

As it was mentioned, ambiguous situations are more likely to cause rumors, since they generate anxiety and/or uncertainty about the future consequences (Weenig, Groenenboom, & Wilke, 2001; Kamins, Folkes, & Perner, 1997; Rosnow, 1991). In that case, rumor works as a tool to deal with such situations, feelings (Rosnow, Yost, & Esposito, 1986; Kamins, Folkes, & Perner, 1997) and cognitive confusion (Rosnow, 1991), and restore the balance by converging excessive – positive or negative – emotions to the mean. Provided above-mentioned information, rumor can function as a "barometer of tension in the community" (Pendleton, 1998), because it shows the attitudes of people, which might predict the following behavioral patterns, and by using this information one can prevent any undesirable situations such as boycotts to happen.

Gossip, on the other hand, is a "small talk with a (social) purpose" (Rooks, Tazelaar, & Snijders, 2011), or as sometimes it is called "cheap talk". Usually it has a negative connotation, yet there are more neutral definitions to this term. For example, it is an evaluative type of communication without the target of communication being present or that it is value-laden communication about members of the social group (Rooks, Tazelaar, & Snijders, 2011).

Furthermore, gossip can be valuable to the society by preventing the opportunistic behavior (Rooks, Tazelaar, & Snijders, 2011). After all, people are usually aware that gossip is inevitable if the reason for it appears; and it brings discontent to know that one is the target of the gossipers. As it was mentioned, gossip does not really talk about good things, it usually condemns people. Not all are capable of facing this pressure, so it is easier not to engage in the opportunistic behavior and not to provoke gossip. It is especially, prominent in a dense network and if consequences for misbehavior are high. For example, being CEO of the company and attending excessive luxurious business trips during the time of financial crisis will trigger gossip and will cause a huge discontent, which might result in decline of morale among employees. That in turn might lead to sales reduction and end up with dismissal of that CEO. Therefore, even gossip can bring some positive outcomes to the society in general.

Anyways, rumor is usually related to the issues that concern groups, society in general (Pendleton, 1998). It arises when the public is concerned about the issue at stake. Rumor is "broad-reaching organizational system of communication" (Pendleton, 1998). It explains how the world works from an individual point of view (Pendleton, 1998), without any scientific support (DiFonzo & Bordia, 2002).

Gossip, on the contrary, is an observational process that is expressed in the subjective opinion or characterization (Pendleton, 1998). Gossip usually focuses on people, rather than events or other issues. Moreover, it usually occurs to discuss misfortunes or undeserved accomplishments (Pendleton, 1998), form the gossiper point of view, of course.

To sum up, rumors can talk about various targets, including people and situations. Its main function is to fill the information gap and/or information discrepancies (Difonzo, Bordia, & Rosnow, 1994). It works as a group solving tool (Pendleton, 1998). On the other hand, gossip bears personally-laden information (Pendleton, 1998) and it does not have any collective necessity as such, it is rather done for private purpose such as entertainment (Difonzo, Bordia, & Rosnow, 1994; Rooks, Tazelaar, & Snijders, 2011; DiFonzo & Bordia, 2002), self-enhancement, or ease of frustration.

3.1.4.2. Rumor and Legend

'Legend' is another term that is sometimes used to replace 'rumor'. However, in this paper these two words describe different things and should not be interchangeable.

Although, it is sometimes assumed that rumor is something like contemporary urban legend, the problem in this comparison is that legends do not position themselves as truth, though they might imply important truths (DiFonzo & Bordia, 2002). On the contrary, rumor is supposed to claim to be true, but whether it is true or false is already another question. Moreover, it is assumed to have been communicated in a literal manner (DiFonzo & Bordia, 2002) without any metaphor or allegory as legends often do.

Now, knowing exactly what the rumor is, the classifications of rumor and its life cycle will be discussed.

3.1.5. Negative VS Positive

In general, rumors can be divided into two broad groups: negative and positive rumors. However, the majority of rumors fall into the negative category (Weenig, Groenenboom, & Wilke, 2001; Kamins, Folkes, & Perner, 1997; Rosnow, Yost, & Esposito, 1986). That is, negative events are more likely to be caught in the rumors, rather than positive ones. Probably, positive rumors do not enjoy much attention, since positive events are less likely to cause anxiety and ambiguity. Moreover, such kinds of rumors are less dramatic, which can last for a relatively short time.

Even though, there are seemingly more negative rumors than positive, when it comes to the rumor transmission the good rumors prevail, i.e. people are more willing to transmit positive, rather than the negative rumors (Weenig, Groenenboom, & Wilke, 2001; Kamins, Folkes, & Perner, 1997). After all, there is a burden of responsibility that lies on the transmitter. If a rumor turns out to be false, then it might tarnish the reputation of the communicator, i.e. the rumor transmitter has to bear some extend of a risk that rumor holds (Kamins, Folkes, & Perner, 1997). If it is a positive rumor that failed, there are more chances that no harm was done. However, if it is a negative rumor, then there are more chances that a big and irreversible damage was done.

Although, there is also a possibility that a seemingly harmless and good rumor might cause harm equivalent to the bad rumor, and not just temporary worsening of the mood due to failed expectations. For example, the falseness of the rumor that promised bonuses in the end of the

year might severely hamper the morale of the employees, especially, if the company is unable to explain the reason for not giving these bonuses after all.

Another explanation could be that people just do not want to impose negative news on others because of their counter-reaction, which is less likely to be positive. Some people simply cannot or do not want to handle any possible consequences of bad news telling. On the other hand, it is pleasant to share with good news, since positive reaction is expected.

On the other hand, the new media opportunities make it possible for rumor transmitters to remain anonymous, which relieves them from a certain degree of burden of responsibility. That, in turn, could make more people to transfer bad news without much of though. Of course, it is just an assumption that requires some research to be executed to answer in a more proper way.

3.1.6. A Rumor Generation and Transmission

3.1.6.1. Generation

It was already discussed, that two terms – uncertainty and anxiety – are often mentioned as the main components responsible for a rumor appearance and further transition. Moreover, a high level of anxiety can actually transform the rumor into a bigger monster (Rosnow, 1991) by paying more attention to personally-relevant 'facts' and exaggerating them. Hence, the main roots of the rumor can be found in uncertainty- and anxiety-driven situations.

In addition to these, other two factors can significantly influence the rumor generation and transmission. They are involvement or as Allport and Postman (1948) suggested importance, as long as it is a relevant one would pay attention to the issue, and credulity (Rosnow, 1991), which

might make a person believe even in ridiculous information that supports the existence of the rumor and promotes its transition. Fortunately, credulity might be reduced by providing education and training critical thinking skills, which can be organized as a workshop in the organization (Difonzo, Bordia, & Rosnow, 1994).

Thus, one should reduce these four factors to reduce chances for rumor to appear. It might be easier to work with anxiety, uncertainty and credulity though, because it is not always possible to reduce the importance of information, especially if it is relevant and cannot be substituted for something else.

Furthermore, all these factors can indirectly imply whether the rumor was believed or not. If all four factors are very high, then the possibility that the rumor is accepted is also high. This can be a good indicator how to proceed further and which tactic to implement.

As a matter of fact, these factors appear, when the lack of a necessary amount of information occurs (Rosnow, Yost, & Esposito, 1986). In other words, a lack of information is a fertile soil for the rumor creation and its further growth, because it becomes the only way to reduce tension in ambiguous situations. People often need to understand the reasons for things; they often strive for meaning to understand why it is like this and not other way around. Therefore, if there is not enough of information, from which to derive these conclusions, people make these conclusions on their own to shed light on a bothersome situation. Furthermore, this act of explanation of unexplained can trigger an appearance of an additional rumor on the top of the previous one (Rosnow, Yost, & Esposito, 1986).

All in all, in the business world, if the management of the company failed to manage information (Difonzo, Bordia, & Rosnow, 1994), a rumor can appear. That is, in order to manage

the rumor, one should be able to manage information first. If it is done correctly, the rumor might not even appear.

3.1.6.1. Transmission

For the generated rumor to move further, an appropriate environment should be created. Although, the rumor is a tool to discuss public issues, it was found that rumors are less likely to be transmitted among strangers, i.e. when people do not know each other or are mere acquaintances there is a small possibility that rumors will be communicated (Weenig, Groenenboom, & Wilke, 2001). However, this research did not work on different locations and environments, where it might be possible for the rumor to spread even among barely acquainted people. For instance, if it is work environment and rumor has nothing to do with this work, e.g. the toy quality or sports classes one attends, it is less likely that a person would spread that rumor among mere colleagues. On the other hand, if it is a chat room in the digital space, then rumors can be transmitted even among complete strangers. The internet provides anonymity, which creates an environment for rumor spreading. Knowing that, a Chinese government, for instance, decided to reduce anonymity in the internet by making people register with their real identities (Kan, 2012).

In addition, such factor as identification with a rumor target might be a reason for spreading rumor or not. The generation and spreading of rumors is usually associated with customers who do not identify with the brand or company (Lam, Ahearne, Hu, & Schillewaert, 2010), and not vice versa. It is a logical conclusion, since the one who identifies oneself with the

brand or company would not generate negative response about the organization that brings self-actualization to them.

3.1.7. Rumor's Life Cycle

As a product has its life cycle, rumors also have their path they usually follow. There are several interpretations of this issue, but both of them have three stages.

One of them identifies the following stages rumor goes through (Difonzo, Bordia, & Rosnow, 1994):

Firstly, the generation should occur for rumor to appear. It does not mean just appearance of rumor, it means susceptibility to rumor. That is, when a person is ready to accept the rumor and transfer it further. As we have already seen, it usually occurs when the level of uncertainty and anxiety rises to a certain point.

Secondly, the rumor goes through the evaluation step. Even though people do not always put a lot of effort in rumor confirmation, people do sort the rumors in two categories 'I believe it is true' and 'I believe it is false'. This process basically determines the life of the rumor. If it falls in the first category, it is more likely that a person will be inclined to transfer it further. If it falls into the second one, it is less likely for the rumor to be transferred further, because there is a penalty for spreading false information, including rumors.

How then people categorize rumors? The gut feeling and reflection of "conventional wisdom and thought" (Difonzo, Bordia, & Rosnow, 1994) determines this process. The more rumors agree with conventions, the more likely it is true. The results might be different through

different times, because categorization depends on the first available cognitions. Moreover, when it is decided which category to choose, rumor makes people pay attention to certain events that verify or refute the rumor. Thus the rumors make relevant cognitions available (Difonzo, Bordia, & Rosnow, 1994). Interestingly, there is no necessity in 100% belief in the rumor to spread it further. The rumor is evaluated on the probabilistic continuum (Difonzo, Bordia, & Rosnow, 1994); the nearer to zero it goes, the less likely rumor will be transmitted, and the nearer to hundred it goes, the probability of spreading rumor growth.

Finally, if the rumor was not discharged it reaches dissemination stage. This stage is the most dangerous, because it basically makes fact out of the rumor. Through multiple repetitions, the rumor cultivates belief (Difonzo, Bordia, & Rosnow, 1994), since the certainty whether it was the rumor or not disappears. Because of a constant reminder, the rumor might be seen as a real fact, rather than fiction. Thus, the rumor becomes more credible, which means that early intervention is very crucial.

Following these stages, one can see where the rumor resides and form solutions for rumor cessation. Certainly, it is in the company's interests to prevent the rumor from reaching the last stage; otherwise, it might become almost impossible to change the situation.

As for another attempt to classify the life of the rumor, Rosnow (1974) proposed three stages of rumor transmission. They are parturition, diffusion and control. The first one is the beginning of the rumor, i.e. the creation of the story. It might be deliberate, which is usually the case in the world of business, or spontaneous. The second, diffusion, as name suggests means the process of transferring information from one node to another. The more speedy and dense diffusion usually occurs among friends and in small towns, rather than among strangers and in

big cities (Rosnow, 1974). Also speed depends on the significance of the news (Pendleton, 1998). Finally, the rumor reaches 'control' stage. It means its dissolution or natural death, when it becomes irrelevant anymore; or death through the official fact disclosure, when persuasive facts that confirm rumor's invalidity are present.

3.1.8. Rumor Types

Finally, to finish the acquaintance with a rumor, two classifications will be mentioned. The first one is proposed by Knapp (1944):

As it was mentioned earlier, apart from negative rumors, there are also positive, which are usually connected to high and pleasant expectations with regard to company, product or service. The rumor that forecasts positive consequences and sometimes embodies wishful thinking is called a wish or pipe-dream rumor.

Negative rumors, on the other hand, are divided into two groups: dread/fear or bogies rumors and wedge-driver rumors. The first one is the most frequent type (Kamins, Folkes, & Perner, 1997) and it can increase the anxiety level even further, because it conveys consequences related to fear or disappointment. The second type is related to the rumors that transfer and encourage aggression towards particular group. For example, it might divide the existing groups, which is similar to the "divide and conquer" motto.

Another rumor classification is proposed by Difonzo, Bordia and Rosnow (1994). This classification suggests that in the marketplace, there are the rumors that are more relevant to the employees and that are more relevant to the customers, as well as that influences both groups.

Hereby, doubts and feeling of insecurity of employees might generate pecking-order rumors (Difonzo, Bordia, & Rosnow, 1994). This type of rumor usually evokes during the change of management and is more important to the employees, since it might affect their job stability (apprehensive concerns) or job promotion (wishful thinking).

The type of rumors that is more relevant to consumers is consumer-concern rumor. It is usually associated with fears about the products and/or a services company is providing (Difonzo, Bordia, & Rosnow, 1994). It could be related to health issues (the safety of the product) or quality issues (reliability and safety), or maybe image issues (the identity of the company and it socially responsible actions).

However, the error rumors, which appear due to done mistakes, might turn out to be costlier to the company (Difonzo, Bordia, & Rosnow, 1994), than the previous two, due to the appearance of distrust not only among employees, but also customers. It can turn out to be especially damaging, if the mistake affects human health and safety.

3.2. Reputation

The main goal of this paper is to find solutions against the rumor to prevent the damage to the reputation or lessen it is much as possible. Therefore, another concept – 'reputation' will be further discussed.

3.2.1. Reputation as a trust

Information asymmetry is inevitable in the business world, since there is always a party that knows less than another. Therefore, some kind of measure should exist that would work as a

guarantee for trustworthiness of the deal, i.e. the guarantee for trust. After all, without even a little bit of trust no transaction can be made (WashingtonsBlog, 2011). This measure is reputation, which works as foreteller of probable outcomes the company will resort to (Depken & Zhang, 2010; Weigelt & Camerer, 1988; Roberts & Dowling, 2002; Mishina, Block, & Mannor, 2012).

Thus, reputation makes transactions easier and less costly, because the breach of the transaction and unanticipated negative behavior will be punished, and it might be too costly to do that for short-term gain (Rooks, Tazelaar, & Snijders, 2011), because it takes a few minutes to ruin reputation and years to build it. Moreover, it might be harder to create a good impression for the second time after being caught in breaking trust. This time it is known that even if the company attempts to behave well once again, one never knows when it will misbehave again. If it was able to do it once, the possibility to do it again rises. Thus, breaching the trust inevitably leads to distrust, which will lead to costly transactions and other related to company activities.

3.2.2. Reputation

Undoubtedly, mature industries have already formed particular reputation on various dimensions, since it is important for business transactions. On the contrary, growing industries are only in the process of reputation formation (Depken & Zhang, 2010), because it requires time. Reputation is inferred from the previous actions that were taken by a company in the past (Basdeo, Smith, Grimm, Rindova, & Derfus, 2006; Roberts & Dowling, 2002).

Usually, the mature companies have various unrelated domains, which in crisis situations ensure the company from losing all the trust. Therefore, if something like rumor occurs, it

usually hurts the reputation of that domain and not the company as a whole (Depken & Zhang, 2010); unless rumor talks about something like cross-shareholding that concerns the whole corporation. Whereas growing companies that focus only on one domain and experience a rumor attack will get a full blow, because the reputation of a whole company will be affected, even if the target is just one sub-product (Depken & Zhang, 2010). Specifically, it happened with *Andersen*, the auditing firm that served infamous Enron. After the rumors appeared and all the speculation came into light, Anderson went bankrupt (Brick, 2003), since its reputation suffered a major blow (Norris, 2002). Even though it was one company and few workers in *Andersen*, who brought so many troubles, people did not want to associate with this company anymore (Glater & Brick, 2002) and the perception of provided service quality plunged drastically.

Hereby, reputation is a term for all the activities done by the company that form its identity (Rooks, Tazelaar, & Snijders, 2011); it is set of attributes that are used to describe the company (Basdeo, Smith, Grimm, Rindova, & Derfus, 2006). Reputation is a collective evaluation of the company's abilities to produce value to stakeholders on the basis of its characteristics and capabilities (Mishina, Block, & Mannor, 2012; Basdeo, Smith, Grimm, Rindova, & Derfus, 2006). It is the same as personal reputation, just instead of one person it includes many people that work in one organization. The company itself becomes as one whole and is anthropomorphized, that is, by referring to the reputation of the company one does not refer to the parts of it, but to the whole organization as it would be one person. On the whole, reputation is all about certain impression creation to attract attention of the stakeholders.

Though it is collective assessment, it does not mean that reputation has to be uniform, i.e. it might have different nuances with different stakeholder groups (Mishina, Block, & Mannor, 2012), e.g. the company might have a strong reputation in producing high quality goods, but it

might be socially irresponsible and pollute the environment. In the example with *Enron* and *Andersen,* the auditing firm was able to satisfy the needs of its clients by inappropriate means that caused dissatisfaction among other stakeholders.

3.2.3. Reputation as Asset

From the above, one can already see how important a good reputation is for a company, which makes it a valuable asset. Especially nowadays, intangible assets gain more and more role in competitive advantage of organization. A company that has a competitive advantage is able to offer distinctive or hard to replicate values to stakeholders (Obloj & Capron, 2011). Intangible assets are more valuable from a competitive advantage point of view because it is hard to imitate (Depken & Zhang, 2010). Therefore, the resources that create competitive advantage have to be rare and better, than the ones of the competitor. The main point is to provide a relative superiority; it does not have to be absolute superiority.

Some essential intangible assets are technology, human resources and reputation. The main attention in this paper will be placed on reputation. Reputation is hard to imitate source of competitive advantage (Basdeo, Smith, Grimm, Rindova, & Derfus, 2006; Weigelt & Camerer, 1988; Roberts & Dowling, 2002), because a good reputation needs time to be formed and established. It also requires a set of different and sometimes lucky circumstances. Consequently, it is not enough just to make a good deed once. Strong and positive reputation needs a "greater persistence parameter" (Roberts & Dowling, 2002). Therefore, in practice such companies also demonstrate greater profit consistency (Roberts & Dowling, 2002). Reputation is an asset that should be developed and taken care of from the beginning and it should be done in a consistent

way. For example, if you start to do something good after the rumor occurs, then it might bring suspicion (Depken & Zhang, 2010) and discontent, instead of approval, because it will look like the company is pretending to be good to trick stakeholders for gaining more favor.

3.2.4. Online Reputation

Apart from the conventional reputation, online reputation also deserves attention. It has been years since computers came into our life. Now they are important for daily life, and online communication has become one of the easiest ways to access information or share with it. Therefore, it is not clear why so many companies are still ignoring the internet and its opportunities and threats (Popp, 2009). Companies are still using old ways to communicate their statements. Although, rumor can get into the internet and influence the situation, companies often ignore the fact that it is possible to issue official statements via the Internet as well. For example, companies can use *Twitter* – a simple way to respond quickly and to the wide audience (Popp, 2009).

Nowadays, more and more companies go online, partially or fully. Therefore, it is important to understand how the reputation works in the digital world as well. So far, two online reputation systems were categorized: centralized, which has one reputation center that accumulates all the ratings, processes them and makes all the scores publicly available; and distributed, which provides information and comments about experience on request and information is stored at users' own locations (Hung, Huang, Hsieh, Tsuei, Cheng, & Tzeng, 2012; Liu & Munro, 2012). The centralized reputation system is widely used by online

companies to help users build trust, reduce information asymmetry and to be used as an information filter in general (Liu & Munro, 2012).

The centralized system works very simply – it has one center, where information and opinions are gathered together. After being accumulated, all this information is published in one place, e.g. on the *eBay.com* website, it is possible to leave any kind of feedback, regardless of it being objective or subjective, positive or negative; or on the *Amazon.com* that leaves product reviews (Liu & Munro, 2012). The distributed, on the other hand, implies that information might be gathered from various sources and published in various places, e.g. on different websites or personal blogs.

The information for these reputation systems can be gathered in a direct and indirect way. Directly to collect information means one has to ask people directly to provide their points of view, e.g. by requesting to feel in questionnaires or simply asking for the opinion or review. Indirectly to collect information means that one is taking the already-created reviews from other reputation systems (Liu & Munro, 2012).

Because the internet is abundant with various kinds of information, reputation is necessary to cut the time consumption on the search of reliable information. Hence, reputation in the internet should be trusted. To help improve its validity, a reputation management system can be used, where users' participation and cooperation is necessary to form a more reliable and accurate reputation for their own benefit and for the benefit of other participants (Hung, Huang, Hsieh, Tsuei, Cheng, & Tzeng, 2012). After all, the internet has become inseparable from the daily life of many people and information that circulates there is more autonomous, than it is in

the old media (Klewes & Wreschniok, 2009). As a result, anybody can write comments or opinions about the product, so there should be some guarantee that information is reliable.

It is beneficial for users to engage in these systems and work with them, because with a better reputation they can enjoy some benefits e.g. increase the price of the product they sell (Liu & Munro, 2012), since there is a guarantee that quality and characteristics of the product fit the description. One of the easiest and maybe the best ways to assess the quality of provided information, is to let users to work on it on their own – it will save time and energy, as well as it will be more compelling to users themselves.

3.2.5. The Importance of the Reputation

Whether it is an online or conventional type of the company, the judgment of stakeholders' influences the company's reputation (Depken & Zhang, 2010) and in the same time reputation influences the stakeholders' judgment. In the absence of necessary information, due to its unavailability or costliness, to come to a more exhaustive conclusion, reputation is used as a substitute for that information (Mishina, Block, & Mannor, 2012). Thus, it is a reciprocal relationship between reputation and stakeholders' judgment and it is mutually enforcing.

In fact, customers value associations and transactions with companies that posses good and strong reputation (Roberts & Dowling, 2002), not only because it is a guarantee for the quality, but also because of the image that is created through association with such companies. For example, in a car industry, being associated with luxury car manufactures is the same as elevating one's status. The same applies to brand clothes or high-class restaurants. Because of

that, customers are willing to pay higher prices for goods or services (Roberts & Dowling, 2002); it is like paying for the status that comes along with the product.

Furthermore, the stronger and better the reputation is the higher customer loyalty (Depken & Zhang, 2010). More people like to identify themselves with better groups, people or organizations, since it will enhance their own self-value. A good reputation enhances expectations of the quality; it reduces the information costs, and increases trust (Hung, Huang, Hsieh, Tsuei, Cheng, & Tzeng, 2012).

Accordingly, a good reputation of brand or corporate image helps to improve the financial situation of the company (Depken & Zhang, 2010), and not only by increasing the price of goods or services. The better the reputation, the better and more skillful staff one can hire; the better the employees the higher the chance for quality and technology to improve. In addition, due to the fact that people are willing to work more in the organizations with a higher reputation, company can consider a cost advantage, that is, pay less for more work (Roberts & Dowling, 2002). Some people value the status and identification more than remuneration, which allows companies with a good reputation to ask from people better work incongruous with work payment. Finally, strong and positive reputation guarantees stockholder contribution to corporate activities (Depken & Zhang, 2010), which is important for the company's well-being.

Interestingly, employees usually perceive their company having more positive reputation, than customers (Davies, Chun, & Kamins, 2010). It is because by working in the company one starts to identify oneself with it, even if not fully. Therefore, the company should be good enough for one to work there. It is good for the company's performance, since employees would be more eager to perform better. On the other hand, customers can just switch companies if they

do not like something about one of them. The one concerning employees is more like internal, whereas the latter one is external reputation; it is important to manage both though.

Furthermore, the reputation of the company can influence the attitudes of the employees, which in turn can determine whether the sales will decline or rise, especially during the times of crisis. If the employee views about the company's reputation are similar to the customers', then no significant change occurs. If employees' views are inferior to customers', then sales are more likely to decline. And vice versa, if the employee views are above, then sales are more likely to rise (Davies, Chun, & Kamins, 2010). The views are determined by the employees' attitudes. If people have less faith in the company they work for, they are less inclined to perform well. However, if people believe in their company, then even in times of negative rumor circulation, employees will be more eager to perform better to prove otherwise.

Equally important, good reputation helps to achieve better terms with suppliers (Depken & Zhang, 2010). The transaction and monitoring costs can be reduced and in crisis times some kind of indulgence can be ensured. Good reputation assures suppliers that the company can be trusted and they do not need to worry too much about adverse selection or moral hazard problems that might occur from the transactions (Roberts & Dowling, 2002).

In general, good reputation is a signal that the company is able to create value to anyone who is willing to invest in it. Thus, good reputation adds value to the company (Roberts & Dowling, 2002) and makes stakeholders more willing to exchange resources with the company (Basdeo, Smith, Grimm, Rindova, & Derfus, 2006). That allows the company to increase prices and retain customers at the same time (Basdeo, Smith, Grimm, Rindova, & Derfus, 2006). In addition, good reputation will ease the blow if the crisis takes place (Basdeo, Smith, Grimm,

Rindova, & Derfus, 2006), because stakeholders will be more willing to support the company and give it another chance. Of course, it depends on the nature and degree of the crisis (Mishina, Block, & Mannor, 2012).

As it was already mentioned, reputation is essential for online companies, because customers cannot touch or see the product in life, which can look completely different from the picture or description. Especially if it provides experience products, i.e. the products that can be understood only after usage, e.g. the taste of food or quality of a lawyer services (Weigelt & Camerer, 1988). Therefore, consumers in the online marketplace rely on the opinions and references of other people, before making a purchasing decision (Hung, Huang, Hsieh, Tsuei, Cheng, & Tzeng, 2012). Online reviews are one of the most essential sources; customers refer to make their decision. The credibility and accuracy of the reviews affect the reputation of the online company (Hung, Huang, Hsieh, Tsuei, Cheng, & Tzeng, 2012), which affects whether the customers are willing to trust the company and engage with it in transactions or they will choose a better company.

Finally, good reputation gives more security that customers will be more willing to try new products or services (Roberts & Dowling, 2002), which allows testing and experimenting more. Thus, good reputation generates positive WOM, including positive rumors. This makes a reputation of the company even better. That is, better reputation generates a better response that generates even better reputation that generates even better response etc.

3.3. Rumor in the Marketplace

Though rumor does not have tangible substance, it might affect both tangible and intangible assets of the company (Difonzo, Bordia, & Rosnow, 1994) by affecting people's perceptions.

There are different worries in the company such as turnover, job-security or job-quality (Difonzo, Bordia, & Rosnow, 1994) that make employees be suspicious about the management of the company and their future, and are capable of triggering rumor spreading. It is especially stressful to people who are afraid of losing their job due to age, low qualifications or particular job market system, e.g. in Japan it has become harder to become a full-time employee, so by getting this position one probably would not like to lose it, since chances for another opportunity are low.

By getting this far, the reader should be now well acquainted with the rumor. Nonetheless, what makes rumor so important for management of the company to pay attention to it? The five reasons were proposed by Rosnow (1991) to answer this question.

Firstly, negative rumor might cause the loss of profit because of negative publicity. If customers think that the service provided by the company is unreliable or inefficient, they will most likely restrain for going to that company. The example of such situation happened to *Andersen,* the earlier-mentioned audition firm related to Enron scandal. The rumor of *Andersen* incompetency spread and it was hard to deny such a vivid publicity. That even after getting permission to continue to work, the damage to *Andersen's* reputation was too strong to remain in the market. As a result, various rumors combined with the scandal brought Anderson into bankruptcy.

Secondly, a rumor can cause boycotts of products, which of course will cause the decline in sales and lead to the first item. However, as long as the reason for the boycott is know, it is relatively easy to get back on track, provided that service or product was changed accordingly. This item might also refer not only to the quality of the product or service as such, but to what company stands for. For example, if cosmetic company is creating products by mistreating animals or excessively polluting the environment, it does not complete successfully its corporate social responsibility (CSR). However, if this company repents of its actions and shows desire and attempts to change, the boycott might be easily stopped.

Thirdly, negative rumors might cause the loss in productivity and overall decline in morale of employees and cooperation among them. If employees do not trust the company or do not have much faith in it, they are less likely to do their job well. For instance, if there is a rumor of an inevitable layoff, there are no incentives to continue to work well. When talking about rumors that are concerned about layoffs or mergers, that is, information that is less likely to bring positive consequences to employees of the company, then it might damage a morale (Einwiller & Kamins, 2008), which inevitably leads to lower trust in the company and its managements, which leads to decline in quality of the work, which in turn will lead to the sales decline or overall damage to the company's reputation. On the other hand, the positive rumors might cause the decline in morale as well. If wishful thinking will turn out to be just unrealized dream, it might hurt employees a lot and make them feel unappreciated, which again reduces the incentive to perform a job well.

Fourthly, rumor might become reason for personnel harassment, which eventually leads to the third item. If employees are working in the company with tarnished reputation, outside their work they might be looked down by others. For example, if the rumor states that the workers of

dolphinarium kill dolphins and sell the meat, which can be bought and eaten during the performance, the chance that employees of this company might be shunned by "greens" increases. Hence, the rumor can cause both psychological and physiological damage to the employees. Moreover, employees themselves within the company might start to expose hatred towards each other. For example, if the rumor says that the reason for low sales is because a department A cannot perform its job well, and hinders the department B, then a chance for internal conflict to arise is high.

Finally, the rumor might lead to the destruction of private or company property. That is usually connected with dread or wedge-driver rumors that state a negative 'fact' about the company that might have strong emotional reaction, which can trigger physical damage. This kind of situation might occur with the above-mentioned dolphinarium example. Also if the company hires homosexuals and in the same time is situated in the country with low tolerance towards such people, e.g. in Russia, then it is not surprising even if the company's building is set on fire.

3.3.1. Explanation

The reasons why rumors sometimes can change the people's attitudes towards the company and sometimes cannot, might be explained with the help of social identity theory, which states that people "define their self-concepts by their connections with social groups or organizations" (Lam, Ahearne, Hu, & Schillewaert, 2010; Einwiller & Kamins, 2008), which means that members of an organization, both actual such as employees and symbolic such as customers (Lam, Ahearne, Hu, & Schillewaert, 2010), identify themselves with the company and

develop a sense of oneness by sharing similar "self-definitional attributes" (Lam, Ahearne, Hu, & Schillewaert, 2010), whether it would be expressed through products or the corporate culture. That is, social identities are developed through emotional and cognitive links between oneself and another social entity, e.g. the organization.

If the identification with a company is high, then it might prevent attitude change and, thus, sales decline even if the negative rumor appears. Customers or employees would less likely believe in the rumor, because negative attitude towards the company would question people's identity as well. Thus, if one identifies oneself with the target of a rumor then the acceptance of negative rumor declines (Einwiller & Kamins, 2008), because a person shares the same attitudes with the target and he/she protect his/her own identity or because a person sympathizes with a target and tries to be more critical towards the rumor. Therefore, information that confirms the same position person is taking sounds more reliable and vice versa. That means that rumors that support prior attitudes are more likely to be true and vice versa (Einwiller & Kamins, 2008). Hence, the rumor that contradicts the prior attitudes is more likely to be rejected and not affect the reputation of the company.

Consequently, it is in customer or employee interests that company is doing well and rumors are just false statements. According to the social comparison theory, it is natural for people to be willing to share profits and fame, but unwilling to share loss and shame, which is called basking in reflected glory and cutting off reflected failure respectively (Kim & Tsai, 2012). Hereby, a strong bond between stakeholders and the company works as a buffer during the times of crisis.

3.3.1.1. Identification

A defense mechanism is created, once a rumor is directly or indirectly attacking a receiver on a personal level (Einwiller & Kamins, 2008). This defense is manifested as activation of attention and evaluation of rumor from a more critical perspective, because these people are more vulnerable to the consequences of the rumor if it is accepted as truth (Einwiller & Kamins, 2008). For example, we all know that smokers very rarely stop smoking if you approach them with the rumor that this habit is changing the brain connectivity that might affect you for the rest of life. It happens because these people do not want these bad consequences to be true and actually happen; therefore, they create a denial defense. If they persuade themselves that it is not true, they do not have a reason to quit. The same goes for employees of the company, for instance. If the rumor is connected to the company's reputation that might affect them as well, it is more likely for a person to indulge in a self-persuasion process that everything rumor says is not true. It has to deal with a self-concept idea, which states that people tend to "confirm validity of a preferred position or disconfirm validity of contrary position to support positive self-concept" (Einwiller & Kamins, 2008). Nevertheless, if the argument is so strong that it is hard to find counterargument, it might change the position of people and affect their attitude towards the matter and include this information into his/her beliefs and attitudes (Einwiller & Kamins, 2008).

Interestingly, the success of denial (one of the strategies in fighting the rumor that will be broader discussed later in this thesis) is moderated by the degree of identification (Einwiller & Kamins, 2008). For example, if identification is high, then it does not matter what kind of denial is presented, with weak or strong arguments, because people continue disbelieving the rumor as they did it before. However, it is important to notice that denial of rumors that were not believed at the beginning might create suspicion and make people actually start to believe the rumor

(Einwiller & Kamins, 2008; Roehm & Tybout, 2006), especially if information is too negative to be ignored. On the other hand, strong identifiers should not be affected by that (Einwiller & Kamins, 2008).

When the level of identification is neutral, people are more likely to be persuaded by denial of the rumor, even if it contains weak or moderate argumentation. Hence, some kind of refutation is needed, but excessive efforts in denial preparation might be omitted.

On the contrary, people with low identification will not be persuaded by weak refutation. A denial with strong argumentation is needed for making them believe less in the rumor. If the denial did not contain strong enough arguments to change mind of disidentifiers than they are more likely to believe in rumor even more, than they did before. It gives a perception that refutation is just a way to cover up oneself. However, if the company succeeded to provide strong argumentation, then the more positive thoughts about the company are generated (Einwiller & Kamins, 2008).

In short, if denial is intended for a broad audience then strong arguments against it might be a solution, but then these arguments should be credible, reasonable, well-grounded and well-built, and properly communicated (Pendleton, 1998), so that not to avert identifiers and persuade disidentifiers. If the audience can feel or suspects that speaker has an agenda on his/her own, that is, his/her denial is not meant for clarification, but for any other reason, then the audience will trust the speaker less. Hence, all information he/she provides will become less credible, even if it does not contain a seed of untruth. In such situation people are making assumptions that they are deceived and persuaded far away from the truth, which will only activate a defense mechanism and the resistance to denial will be formed.

3.3.2. Rumor and Trust

Accordingly, identification creates a bond of trust. Although, trust is necessary for reputation preservation, it can also affect rumor transmission. If a person has trust in the company, he/she might consider not believing in the rumor and providing support during and after crisis situation. For example, if the shareholders believe in competencies of the company and attribute the negative rumor, which emphasized the bad product or service quality, to external factors, they might continue to supply financial help, instead of withdrawing any support. Unfortunately, trust is not invariable and can be broken, and strong and negative rumors are capable of doing that (Difonzo, Bordia, & Rosnow, 1994). Obviously, this scenario would cause a financial decline of the company.

It is important to develop trust among and between employees and managers, because in times of crisis, trust may be the only buffer to reduce damage. Therefore, a workshop might be created, where people would learn the skills of interpretation of ambiguous events as non-antagonistic (Difonzo, Bordia, & Rosnow, 1994), i.e. not to jump to conclusions because of the stereotypes and overwhelming emotions, which is important for critical thinking development.

One of the emotionally-laden situations that might affect the trust, for instance, is scandal. Rumors can be a direct cause of the scandal (Roehm & Tybout, 2006), which will eventually bring more attention and negative publicity. After all, if the rumor can be eroded before causing greater damage, it will just remain rumor, i.e. information without clear evidence. However, if the situation reaches the point of a scandal, it might be an indirect evidence of the plausibility of the rumor, since it went all the way through.

3.3.3. Rumor and Competition

In any case, talking about the rumor in the marketplace, one should keep in mind that a majority of rumors is generated and spread due to the competition (Lam, Lee, & Mizerski, 2009).

The negative rumor that focuses on company X might be beneficial to company Z, if these two companies are competitors (Roehm & Tybout, 2006). Of course, it might be a tempting solution in the battle over stakeholders' attention. Nevertheless, this method of competition, intentional (spreading the rumor on purpose) or unintentional (the rumor was generated without competitor's initiation), might cause not just local harm within the company's borders, but it might go out of control and damage the whole industry as it is with financial industry and the whole banking system nowadays. For instance, it happened to the salmon farms. The rumor that a meat of hand-reared salmon has harmful to health elements caused damage to all salmon farms and gave a boost to a wild salmon sale (Gaultier-Gaillard, Louisot, & Rayner, 2009a).

There is a theoretical explanation for this phenomenon, when rumor might eventually cause harm to the competitors of the targeted company. The accessibility-diagnosticity theory talks about this issue. In short, accessibility stands for activation of different nodes (brand or products) in a strong linkage (Roehm & Tybout, 2006), that is, if different brands or products are clustered in one readily accessible in cognition group, then activation of one node (a company's Z product) might trigger the activation of nearly standing node (a company's X product), which might make a person associate these two nodes with one issue (negative rumor).

Diagnosticity, on the other hand, describes how implicit theories help to understand the relationship between different things (Roehm & Tybout, 2006). If these two nodes appear to

have a direct relationship, then the rumor directed to the company X might spill over to the company Z as well. Therefore, the negative rumor intended for one company, might cause similar or smaller, but damage to the direct competitor of that company. Thus, it might be wise to restrain from initiation of rumors to tumble the competitor, especially if one is a direct competitor working in the same industry and geographical location.

3.3.4. Rumor and Employees

Apart from competition, rumors within the company are quite popular and occasionally take place in the working space among employees. Usually these rumors are about the management, layoffs, promotions and other relevant to the job topics. All this information can be classified as personally relevant information; and the rumor that affects personal interests is more likely to be transmitted (Kamins, Folkes, & Perner, 1997). Assuming that, the generation and content of the rumor can be predicted or at least anticipated beforehand. Thus, it is possible to keep rumormongering to the minimum and even prevent possibly dangerous ones.

In addition to personally relevant information, negative rumors about the rival are more likely to be transmitted among employees of the competing company. In the previous case, the spreading of rumor is attached to the apprehension and uncertainty about one's own future. In this case, the rumor is more like a pipe-dream rumor to competitors of the targeted company. This type of rumor will create a feeling of superiority and self-enhancement or simply will make employees of the rival company happier since their competitor is doing worse (Kamins, Folkes, & Perner, 1997; Einwiller & Kamins, 2008). Thus, even if the rumor is not transmitted in one's

own company, it does not mean that other will drop it as well. Consequently, not company

rumors among insiders can be of greater danger, but the leakage of information to outsiders.

3.3.5. Rumor and Consumers

Although, the biggest part of the marketplace rumors is perceived to be less likely true, the

majority of consumers does not try to find out if the rumor is actually true or false (Kamins,

Folkes, & Perner, 1997). It means that even if the rumor was perceived as false at first, by being

exposed to it for several times, it can stuck in the head and cause a person to be primed to expose

more negative feelings towards the company, rather than positive or neutral.

Moreover, a negative response might be perceived as more diagnostic in determining the

company's actions (Kamins, Folkes, & Perner, 1997), because it emphasizes the deficiencies,

which could be obscured in positive response. Even if it was clear at the beginning, with a time

one might confuse and forget that information was just a rumor (Dubois, Rucker, & Tormala,

2011).

3.3.5.1. From Rumor to Fact

Social scientists were trying to investigate this phenomenon, and came up with a

conclusion that with a time "highly uncertain beliefs lose their uncertainty, when highly certain

beliefs lose their certainty" (Dubois, Rucker, & Tormala, 2011). That means that rumors with the

time might turn into facts from a person's perspective. That is why, paradoxically, rumors that

are less likely to be true can become dangerous to the company's reputation. Even if it is not

immediate danger, it might become such after a while. Therefore, even if it is extremely implausible rumor, it is better to get rid of it.

On the other hand, it also means that facts – highly certain beliefs – might lose their certainty and in a way turn to less credible information. This phenomenon can be reassuring to the companies. According to this assumption, if there was damage to the reputation due to misconduct on behalf of the company, then after some period of time the certainty of the facts can decrease. Of course, it depends on the situation. If the undesirable issue can be covered by another more interesting and important event, then harm can be reduced. The negative facts about the company, as long as the company performs well, will diminish and become in a way rumor-legend type, that is, these facts will be remembered with less certainty. For example, it happened with McDonalds. After the death of CEO, the stock prices of McDonalds dropped. Nevertheless, the company did not mourn for long, and immediately issued the prospects of the future, which causes the subsequent rise of share prices (Doorley & Garcia, 2010). Thus, even if it is a fact, the impact of it can be reduced.

The above-mentioned phenomenon is not groundless assumption and can be justified with a metacognitive model (Dubois, Rucker, & Tormala, 2011). This model states that people store both beliefs and secondary cognitions, i.e. cognitions that sort the beliefs into 'valid' and 'invalid' categories (Dubois, Rucker, & Tormala, 2011). These secondary cognitions or tags are supporting beliefs, but they do not exist without these beliefs. Therefore, these tags are not restored from the memory as first ones, because they are hierarchically less important than beliefs themselves. Hence, they have higher chances to vanish or be confused (Dubois, Rucker, & Tormala, 2011). A loss of certainty also occurs because people rarely care about this aspect of information (Dubois, Rucker, & Tormala, 2011). Usually they pay more attention to the content,

than whether this is certain or not. Clearly, information that is not attended to usually persists for a little moment at the beginning and after a certain point it starts to fade away in relatively fast pace. Thus, to avoid the rumor transformation into facts it is advisable to make the category of certainty salient, i.e. emphasize that this rumor is certainly rumor and by no means trustworthy information.

3.4. Reputation Management

The actual reputation is a reputation as an asset, but a reputation formation process is reputation management (Klewes, 2009). Reputation management starts before the perception of the company is formed (Klewes & Wreschniok, 2009), because that perception should be derived from some previous actions. Reputation is formed via "one-to-many communication" (Klewes & Wreschniok, 2009), when one company has to present itself to many different groups of stakeholders. Thus, reputation management is reputation building activities, its preservation and appropriate usage.

Furthermore, evaluation of reputation is often based on subjective assessment (Mishina, Block, & Mannor, 2012) that is derived from prior attitudes. Reputation management is about meeting stakeholders' expectations (Gaultier-Gaillard, Louisot, & Rayner, 2009b). However, different stakeholder groups can have different expectations. In that case, the company has to evaluate which stakeholder group's expectations are more important for the company to achieve, and which can be partially ignored, i.e. a hierarchy of stakeholders should be formed. Moreover, as the size of the company increases, more attention should be brought to reputation management (Eisenegger, 2009), and more expectation should be met.

Hereby, in the ideal case, every group of stakeholders should have individual treatment, yet it might become too confusing and cumbersome to discuss it in the theoretical paper. Moreover, not so much research is still done with regard to this issue. Therefore in scientific papers there is often an assumption that stakeholder "notice similar cues, react in a similar manner to these cues and arrive at similar conclusion" (Mishina, Block, & Mannor, 2012), thus, treating different groups of stakeholders as one whole.

It is also important to realize that a cue generation does not mean that they will be immediately noticed (Mishina, Block, & Mannor, 2012). That is, even when the reputation is being formed, not all the attempts might be noticed by stakeholders and public in general. That means that not all action the company produces will be evaluated as cues for reputational judgment (Mishina, Block, & Mannor, 2012).

3.4.1. Reputation Management Dimensions

Accordingly, reputation management is not uniform, but diversified activity. It also functions on different areas, which should be taken into consideration for successful reputation building. A proper reputation management should control customer market (the quality of goods and services), financial market (performance of the company), opinion leader market (corporate social responsibility that affect an emotional aspect of favorability) and employee market (the attractiveness of working place) (Schwaiger, Raithel, & Schloderer, 2009).

Similar categorization of dimensions that contribute to the reputation formation was proposed by Mark Eisenegger (2009). He proposed that reputation is built by attending to functional, social and expressive approaches. Functional is about performance and competencies

of the company, which is similar to the financial market. Social approach is about corporate

social responsibility and it emphasizes a "good citizen" (Eisenegger, 2009) within the company,

which corresponds to opinion leader market. Finally, expressive approach is the way the

company created its identity. Thus, it is about the uniqueness and attractiveness of the company,

which is similar to the customer and employee markets.

These two classifications of dimensions that help to form a good reputation show that

reputation management does not only depend on its ability to generate profit, but also on the way

it behaves in the society and how it achieved that performance (Gaultier-Gaillard, Louisot, &

Rayner, 2009a). That is, being first by any means is not enough; it should be first in virtue as

well. Moreover, 'by all means' is not acceptable anymore. If it is found that reputation was built

through socially unacceptable means, then it can severely damage the reputation.

Reputation management requires attention to many fields, because a company has to

perform well in all of them. As it was mentioned before, reputation frees the company from a

burden of proof. Reputation can guarantee its trustworthiness and safety to engage in transactions

(Rooks, Tazelaar, & Snijders, 2011). Reputation makes other party aware how the company will

behave in a certain situation. Therefore, various dimensions should be taken into account and

worked out.

Furthermore, reputation management is influenced by various dimensions, e.g. by

customer relationship, employees and social responsibility (Hung, Huang, Hsieh, Tsuei, Cheng,

& Tzeng, 2012). Customers are one of the main stakeholders that matter to the company, and

their support is very important because a company exists for providing goods or services to its

customers. Therefore, it is not surprising for companies to adjust to the customer wishes as they

adjust to the shareholders. After all, shareholders and any other finance supplier, including

customers, are essential because they provide money to sustain the company and make the company's projects possible.

On the other hand, employees of the company are the face of the company. Therefore, even if the quality of the product is good, but employees are impolite and unprofessional, it will influence the company's overall evaluation. That is, it can easily discourage people to associate with the company any longer or it can make people perceive the quality of goods not as good as it actually is. After all, if employees of the company are rude, it is less likely for a customer to go there again, especially when the alternative is available.

Finally, nowadays to make good products or provide good service is not enough. The great attention is put on the way the company acts on the social arena and how responsible it is towards the stakeholders, people in general and the environment.

3.4.1.1. Time Dimension

In addition, the short-term and long-term gains should be calculated and desirable outcomes planned, because reputation can act differently for each time dimension. Obviously, reputation is relevant in the short run at most (Roberts & Dowling, 2002), because reaction to the company's action depends on it. In the short run, reputation provides immediate gains. On the other hand, reputation can hurt the company in the long run, because of the produced inflexibility (Roberts & Dowling, 2002). Once the company establishes the reputation it might be hard to change it or change might be accepted negatively by stakeholders, but it might be necessary due to environmental changes. Therefore, it is important to leave some space for changes and/or revisions.

Moreover, reputation management is also about the response timeliness to actions or situations. As a matter of fact in the age of advanced technology and communication, information disseminates quickly, especially, if it is a negative one. Therefore, the damage to the reputation can be caused even if one will act swiftly. To avoid any further complication, employees of the company should be able to act accordingly and provide positive and correct information immediately (Hung, Huang, Hsieh, Tsuei, Cheng, & Tzeng, 2012). For them to be able to perform that, employees should have been trained to react to such situations. Also, when information gets online, reaction speed becomes even more crucial, and reputation more vulnerable.

3.4.2. Reputation and Game Theory

Interestingly, game theory that provides valuable insights for the strategic decision-making also provides some useful information for the reputation management.

3.4.2.1. Information Leakage

In the game theory, set of privately known information is called a player's type (Weigelt & Camerer, 1988); the type is formed by collecting information that would help to make an opinion about the player (company). Under an assumption that types are stable, reputation is a tool to predict future behavior (Weigelt & Camerer, 1988). Moreover, the assumption was proved to be valid, since reputation differences between the companies are persistent over time (Roberts & Dowling, 2002).

Usually rumor is not entirely true, but it is not also entirely false, there is always room for exceptions, which leads to the conclusion that rumor, appears in cases when information was not stored appropriately and its leakage to competitors or any other person, interested in spreading rumor, occurred. This conclusion points out to that a good risk management should be able to keep information under control and use when it is profitable for the company, without allowing information leakage.

3.4.2.2. Strategic Deceit

On the other hand, as game theory suggests, the beliefs of the company's type are formed from gathering data, i.e. actions and strategies of the company. That means, that company can strategically deceive competitors on some points and 'unintentionally' focus its attention on insignificant to an overall strategy matters. In this situation, even if the rumor appears, it would be easy to combat it by providing official information of what is going on. In short, reputation management is not only about managing the reputation as such, but also about managing private information.

All in all, competition is an important topic for reputation management and requires more attention.

3.4.3. Reputation and Competition

The comparison between two or more companies is inevitable. It is shaped by assessing the structure of the organizations and their attributes. If there are similar products or services customers will compare them, because they want to have the best deal. That is, reputation is

shaped by both competitors and one's own actions (Basdeo, Smith, Grimm, Rindova, & Derfus, 2006). On the other hand, once the reputation of the company is formed it is to some extent protected from the competitor's activities (Rooks, Tazelaar, & Snijders, 2011). Hence, it is not that simple to hurt the reputation of the competitor (Basdeo, Smith, Grimm, Rindova, & Derfus, 2006), because it is built within. Unless a competitor decides to spread the rumor, which can substantially hurt the reputation even if it is false information. Thereby, the comparison of the competitors influences the reputation and always takes place in the stakeholders' and general public's minds.

However, even competitors have different classifications with respect to the evaluator. There are competitors who are categorized by customers and who are categorized by the companies themselves, and it is not necessary for them to overlap. And yet, both are very important for reputation management, and are highly determined by the company's identity (Kim & Tsai, 2012).

The former type is fundamental because it is the way customers compare and base their evaluation when making a decision. It is based on the external evaluation. The judgment is often based on the performance, which affects customers' evaluation accordingly. Hence, if a competitor shows itself as being more socially responsible, on its background target company will seem to perform worse, thus, having worse reputation.

On the other hand, the later type of competitors is internal evaluation. That is, it is a self-asserted comparison that drives the companies to perform better from within. This type of competition is like choosing a target to match and eventually outperform. It works as an incentive to perform better, which can assist in forming better reputation. For example, the

company's self-appointed competitor is engaged in ecologically friendly activities, by doing the same one can boost the reputation. However, it might be that company Z considers company X as a competitor, but not vice versa. It can turn out to be beneficial for company Z, since it competes without a significant threat of being attacked by the company X. On the whole, comparison with better firms should improve sales, rather than comparison with worse firms (Kim & Tsai, 2012), which can be a reason for company X not to compare itself with company Z, and vice versa.

Additionally, another two groups: competitor-substitute and complementary-competitor (Basdeo, Smith, Grimm, Rindova, & Derfus, 2006). The first group of competitors provides similar product or service and customers can choose whom they give their preferences to. Why these companies have to be competitors? The companies compete for the stakeholders' attention and resources that have a limit (Basdeo, Smith, Grimm, Rindova, & Derfus, 2006). While another group of competitors actually helps each other, since they produce products or services that cannot or have less value if are used on their own, e.g. tennis racket and tennis balls, restaurants and hotels in resort spots. From the rumor generation point of view, it is more likely for competitors-substitutes to create rumors, rather than for complementary-competitor, unless there is a better deal with another competitor.

3.4.4. Crisis Management: Rumor as Opportunity

During its existence, it is normal for a company to experience various kinds of circumstances, including crisis situations. All the actions that are taken to deal with situations are important, but the most vital for the reputation management are the most visible actions in the

marketplace (Basdeo, Smith, Grimm, Rindova, & Derfus, 2006). Hereby, the performance becomes very important merit for stakeholders to measure and decide on evolution of reputation. Thus, even a rumor attack might become a springboard that will boost the reputation. As in martial arts, there is technique to use opponents' strength to fight him/her; the same approach can be applied encountering rumor – company should refocus the crisis into the opportunity. That is, the way company faces the rumor and deals with it, will provide information about the company's characteristics, resources, skills and capabilities (Basdeo, Smith, Grimm, Rindova, & Derfus, 2006), which will allow stakeholders to witness and evaluate the company's performance in the situation of crisis and form an opinion about the company's ability to create value even if the environment and its market position changes.

As a matter of fact, in the times of crisis, company with strong and stable reputation might receive some indulgence from the stakeholders. Nevertheless, if the crisis is not a small mistake or unfavorable action, then reputation-buffer becomes reputation-doom that might even cause a bankruptcy of the company. Ironically, positive and strong reputation is very essential for competitive advantage, yet it might become a reason for enormous failure. In fact, the ones with stronger reputation suffer more, than companies with weak or in the process-of-development reputation, because expectations of the former group of companies are higher. Thus, if these companies fail to preserve expectations the difference gap between expectation and the actual action is bigger and more visible, which will make people more discontent by the failed performance. Moreover, this action will be as diagnostic one, i.e. it will be perceived as 'company Z has finally revealed its true face'. That, in turn, makes people feel cheated, which will make stakeholders to turn their backs upon the company.

3.4.5. Two-fold Process of the Reputation Management

Reputation building process is two-sided, i.e. companies employ directors to build the reputation of the company, while directors use the reputation of the company to build their personal reputation (Weigelt & Camerer, 1988). As well as a company employs employees to build the reputation of the company through their hard work, while employees use the reputation of the company to elevate their status in the society or ask for better remuneration.

This duality gives both directors and employees an incentive to protect shareholders' interests, because they work not only for shareholders' value creation, but also for their status in the society (Weigelt & Camerer, 1988). On the other hand, shareholders of the company with strong directors and employees are more likely to provide financial support and give a second chance if it is needed.

3.4.5.1. Reputation Duality

Not only the process of reputation management is dual, but also the reputation itself can be divided into two major types that are differentiated by stakeholders, i.e. capability and character reputations (Mishina, Block, & Mannor, 2012).

Capability reputation demonstrates what company can do, i.e. its resources and abilities. This type of reputation represents the "collective evaluations about the quality and performance characteristics of a particular firm" (Mishina, Block, & Mannor, 2012).

Character reputation demonstrates what company would likely do, i.e. its goals and behavioral intentions. This type of reputation represents the collective judgment inferred from

the past actions "regarding a firm's incentive structures and behavioral tendencies" (Mishina, Block, & Mannor, 2012).

In turn, these two types of reputation help to deal with two types of uncertainties. Capability reputation is useful for adverse selection or 'lemon' problem solving, which can make a false impression about the company in overestimating or underestimating it. Before entering into the transaction with a company, capability reputation is an alternative solution in cases when it is impossible to directly observe the characteristics of the company (Mishina, Block, & Mannor, 2012).

Character reputation is useful for moral hazard problems that might occur after the transaction takes place. If the opportunity allows, there is always incentive to engage in opportunistic behavior. Hereby, character reputation is a useful source of information, when the company's future behavior is ambiguous (Mishina, Block, & Mannor, 2012).

3.4.6. Reputation Cues

It was already mentioned that not all cues are equally significant to stakeholders and not all of them are perceived by stakeholders. The evaluation of the reputation is a path-dependant process, which means that prior opinions and beliefs play a significant role in determining the cues a person pays attention to and how these cues can be understood and explained (Mishina, Block, & Mannor, 2012), i.e. positively or negatively.

The process of cue integration into the evaluation of the reputation and its further impact on that evaluation depends on the diagnosticity of the cue. That is, the cue might differ from the prior beliefs in positive or negative ways (Mishina, Block, & Mannor, 2012). When talking about

the capability reputation, then positive cues are more diagnostic in determining what the company is able to achieve, i.e. positive cues have more attention and are more likely to be perceived and incorporated into the evaluation and bring evaluation adjustment if needed (Mishina, Block, & Mannor, 2012). While in judging a character reputation, negative cues are more diagnostic in determining ones behavioral tendencies, i.e. negative cues will be the one to affect the final judgment, and thus evaluation of reputation (Mishina, Block, & Mannor, 2012). It is because the negative cues are supposed to show a true face of the company that tries to hide itself behind a neat social mask, which it is obliged to wear to gain more favor from the stakeholders. Good behavior is something what every company should do anyways. Therefore, when a mask is taken off, one can see the true colors of the company. In other words, positive cues affect capability reputation more, while negative cues affect character reputation more.

However, it does not mean that evaluation changes swiftly. Usually the cues which go against prior beliefs are ascribed to the situational factor (Mishina, Block, & Mannor, 2012) as an excuse for unusual performance. It is done to escape the discomfort of cognitive dissonance, i.e. when prior beliefs do not correspond to the occurred situation, and explain why these prior beliefs do not hold anymore.

3.4.7. Reputation Revision Process

The discrepant cues might affect the prior evolution of the reputation and trigger its revision. The larger the difference between prior beliefs and newly formed evaluation, and the more significant the cue is, the greater the effect on a final judgment will be (Mishina, Block, & Mannor, 2012). There are three factors that shape this process: type of discrepancy, whether

positive or negative; type of reputation, whether capability or character; and favorability of the existing reputation, whether favorable or not (Mishina, Block, & Mannor, 2012).

As a matter of fact, the already-formed idea of the reputation makes people search for confirming cues (Mishina, Block, & Mannor, 2012) and ignore or misinterpret the disconfirming ones. Especially, when information is hard to perceive and interpret, the prior reputation can be used as a reference to simplify that information (Mishina, Block, & Mannor, 2012). Thus, the prior reputational cues are important for the reputation management, and will affect the current evaluation.

Nevertheless, the sudden change in behavior and the different results shown by a company not always guarantee a warm welcome. If the company was doing pretty badly and did not show itself in a good light, then a sudden positive change might cause mistrust on behalf of stakeholders. Especially, if there is no reason to change, i.e. the cues that a company is going to change were not present. Since human beings are perceived as rational, but opportunistic, the change might be interpreted as profit-seeking behavior (Mishina, Block, & Mannor, 2012). For example, if Shell, oil and gas company, calls itself environmentally friendly, there is a high probability that any such effort will be welcomed as an attempt to distract stakeholders from more important issues that require immediate solution.

A strong and positive reputation can make the discomforting cues 'invisible' (Mishina, Block, & Mannor, 2012). There is a degree of latitude for such companies in the eyes of stakeholders. It happens because discomforting cues are bothersome and they create distress by trying to find explanations. Hence, instead of looking for reasons, one just ignores the message and attributes these cues to situations like 'it could not be avoided' or 'the financial crisis does

not leave anyone unscratched'. In this situation, if the rumor attacks the company, the denial might make the cue visible and acceptable, which will only harm the reputation. Anyways, a good reputation can be exchanged for few unfortunate events.

Nevertheless, positive reputation is not a huge pool of points that can cover bad deeds; it is quite small and can hold only small misconducts that do not have significant consequences. Even though, positive reputation has a "benefit of the doubt" (Mishina, Block, & Mannor, 2012), which means that in case of the rumor company has a chance to talk and stand up for itself. Moreover, it is more likely that explanation will be heard, if the reason is morally acceptable, of course. In short, the magnitude of the rumor matters.

Though, if a negative cue reaches the threshold of the limit a good reputation can hold and breaks from it, the consequences are usually even more severe to a company with a good, rather than a bad reputation. It can be such a strong hit that even the previous cues, including all the prior beliefs and opinions, can be re-evaluated (Mishina, Block, & Mannor, 2012) within the new context. One might think that he/she was deceived all along, which makes the situation even more complicated and might be a reason for the increased severity of the damage. It is like betrayal of trust, which obviously contains a lot of emotions and is hard to deal with.

On the whole, one can figure out that for good capability reputation, one should show-off its capabilities and engage in creating cues that would be performance-oriented (Mishina, Block, & Mannor, 2012). It is also important that the audience will be able to assess the cue; therefore, it should be measurable (Mishina, Block, & Mannor, 2012). That is necessary to show what the company is capable of and that it has a potential to perform on a high level (Mishina, Block, & Mannor, 2012); otherwise, stakeholders will never know the company's capabilities. It will also

set a standard and the following cues will be interpreted in a more positive way (Mishina, Block, & Mannor, 2012). Of course, it is not enough to generate one, but powerful cue, it should be done at least from time to time to show that the company did not lose its grip.

3.5. It is All About Timing

When rumor and reputation come together, the time is paramount. It does not take long for a rumor to travel from one source to another, from one person (node) in the network to another. The rumor travels among different nodes of the social network with enormous speed. The speed increases if the network has strong and tight links. Therefore, it does not take a lot of effort to spread an apprehensive rumor among employees of the company. The high network density and high node concentration assists the rumor. Furthermore, contemporary potentials of the media only accelerate the speed of rumor spreading even among the nodes in loosely connected and dispersed networks. That is why a 'response lag' (Basdeo, Smith, Grimm, Rindova, & Derfus, 2006) – the amount of time that passes between the rumor emergence and the subsequent reaction by a company – is very crucial and might become salvation or downfall for the company.

As a matter of fact, rumor is fast in spreading around (Pendleton, 1998). There are two possible reasons for this speed. Firstly, according to the rumor definition (which was discussed before), rumor holds the news of public concern; therefore, it does not stay between few individuals, but travels to all related to issue people and sometimes to the general public as well. Secondly, contemporary media opportunities allow transmitting news, especially negative ones, without difficulty or much hassle.

Since rumor displays the potential of news and is communicated through WOM or media, it is an ignorance to ignore the routine of news circulation in the media (Garcia, 2001). To exclude this mistake, a simple, but quite efficient 'forty-five minutes, six hours, three days and two weeks' rule will be introduced.

The rule does not give exact days; it is just a rough overview of the news cycle (Garcia, 2001). However, it is enough to understand how the news develops in the media and how to prepare oneself in the rumor elimination. After all, the saying 'if you are in Rome, do as Romans do' did not appear without a reason. Winning the game by ignoring the rules is an outcome that is less likely to happen. The rumor is a type of news, and whenever it gets to the media it follows the rules of media. Therefore, to win this game one should know the rules and use them to its own advantage.

The rule of 'forty-five minutes, six hours, three days and two weeks' helps management to set deadlines in combating the rumor. This rule emphasizes the necessity of speed once more. There are specific points in time which occur in the news cycle and at each point the spreading of rumor will increase and will be harder to deal with. Therefore, the company has to set the deadlines as well, but if it misses one point, it should proceed to another bearing in mind that other actions should be applied. Thus, these points will help to stop the rumor completely or at least partially control it (Garcia, 2001).

With each point reporters are more likely to engage deeper into the matter (Garcia, 2001) and dig up facts that could prove their point, which can lead to the disclosure of information that might even have an expiration date, but be renewed once again. That is why 'it never rains but it pours', because an unfortunate event does not come alone. If one unfortunate event happens,

another pops up. Therefore, if it is possible to satisfy the need for news by providing information that is stronger and more exciting than rumor, then throw it in the media (Doorley & Garcia, 2010); otherwise, follow the game.

Thereby, the first crucial point that determines the following course of the game is 45 minutes. This period works purely on the rhetoric's and act of persuasion. During this period only small number of people is aware of the situation. Knowing these people, one has a chance to persuade the ones who know the rumor not to publish anything. If it the process of persuasion was successful, then a chance of getting rid of rumor completely, without causing any damage to the reputation, is very high.

Nevertheless, if the first step was a failure, the information will go into the public and will become available to a greater number of people. In that case, the trait of people who are aware of the rumor will be lost and it will become harder to combat the rumor later on.

However, by letting the rumor pass through the first point, one should not let its guard down and focus on another deadline, which is six hours. Once the story is disclosed, one should be prepared to suffer at least six hours of negative coverage and some damage to the reputation. This time is enough to inform at least some part of stakeholders. Moreover, it might be enough for some of them to act upon the newly received information. For example, stock prices can go down immediately after the rumor was exposed. During these six hours, one should focus on a broad audience and should make public statements, applying necessary strategies according to the situation.

Unfortunately, by failing this point, one will have to be prepared to be exposed for several days of negative publicity.

Three days is another crucial point that gives more time to prepare, but makes it more difficult to stop the rumor. The story will appear in daily news, and then will be caught up by all other news media that missed the story at the first place. Three days is enough to substantially disseminate the rumor in the paper press, TV, radio and online. The rumor can generate gossip, which will make the rumor more distorted, than it was in the beginning. These three days the company should do its best to stop the rumor; otherwise, it will last for weeks.

The final stage that still gives an opportunity to control the rumor dissemination before going widely uncontrolled is two weeks. Within that time such press as weekly or semi-monthly newspapers will catch up and add to the already extensive pool of rumor-knower. This time slot is the last resort to fight with the rumor. By missing it, one misses the opportunity to control the rumor and creates the situation of uncertainty, when it is unknown when the rumor will stop. If it is a serious rumor, then a company can get into the situation, when its reputation is damaged to the extent of no-recovery, i.e. the company can go bankrupt.

3.5.1. Rumor and Reputation VS Internet – Curse or Blessing?

Communication of information occurs within a network that connects people together. Two different types of network exist: scale-free, where degree distribution follows the power law, and random growing, with the Poisson distribution (Zhou, Liu, & Li, 2007). Scale-free networks are small world networks such as biological networks or the Internet. Though, there is fear of a rumor to get to the Internet space and get out of control, it was calculated that chances to hear a rumor in a free-scale network are less than 80%. Of course, the probability is still high,

yet it is smaller than in a random growing network, e.g. network of employees in the company, and persists for shorter time (Zhou, Liu, & Li, 2007).

In any case, what might be important for risk managers to know, is that the greatest danger in the internet comes from so called 'hubs', the nodes that as Ronal Burt would say mend a structural hole, i.e. the hub node is a node that has linkages to other nodes that otherwise would not be connected. Hub nodes are as hub airports – the place where the roads are crossed. For example, *Facebook* or *Twitter* are typical hubs, since they provide space for different people to connect, who otherwise would not even have an opportunity to know each other. Thus, the scale-free network might be actually a blessing for a company that encounters the rumor, because it knows where to act to work with a rumor.

On the contrary, in random networks, once the rumor started it is almost impossible to track down the source. As the name suggests, the network is random; hence, it is time consuming and costly to track down the nodes that are aware of the rumor and to stop the rumor from further spreading. However, by using hubs in the scale-free network, one might stop the rumor in a more efficient and timely way. One has to handle these hubs from which information flows further, and it will be enough for a significant breakthrough with a rumor stopping process. Thus, if it is possible to address the issue on these hubs, the rumor might be stopped earlier and cause less damage if any, in comparison with the random growing network.

Chapter 4 Case Studies

Two real-life examples will be examined to have a better understanding of the rumor's influence and the company's attempts to combat it.

4.1. Case #1 – Fokker

Situation

Fokker was a Dutch aircraft manufacturing company, which had times of success in the aerospace industry and had times of failure that eventually brought the company into bankruptcy. Since 1987 Fokker has started gradually strolling towards the bankruptcy end due to development costs. Nevertheless, with a help of Dutch Government it was able to get back on track. To avoid similar crisis in the future, Fokker tried to find a partner. Unfortunately, the profits started to decline again in 1993. Despite that, Daimler-Benz Aerospace (DASA) agreed to take over the Fokker with 51% of a new majority holding company. However, this joint venture did not work out well. Already in the next year, Fokker had to lay off employees and to halt the production at 40 aircrafts. Despite the help provided by DASA and the Dutch Government, it did not manage to come out of its financial crisis. In 1995 it had to cut more jobs and in 1996 Daimler-Benz cut its ties with Fokker. In the same year Fokker went into bankruptcy (Commercial Aircraft Directory, 2012).

What happened?

During the last few years a lot of rumors were circulating around Fokker. There were both the dread and pipe-dream rumors that plunged or raised share prices. For example, when Jürgen Erich Schrempp, the CEO of Daimler-Benz, decided to stop subsidizing Fokker and focus on its core automobile business, it was unprofitable to sell Fokker factories due to the rumors of its

insolvency. However, suddenly a rumor of Fokker acquisition by one of the Dutch disco club owners was spread around. During the first two days, while the rumor was new, share prices rose. This allowed the one who spreads the rumor to make some money without substantial loss (Petrosyan, 2008).

Another example of the wishful-thinking rumor that helped to raise the share prices of Fokker happened in 1995, when in it was reported that the Dutch Government was willing to subsidize the company. Shares jumped 9.1 percent (International Briefs; Fokker Shares Jump After Bailout Report , 1995). Already in 1996 the share prices plunged due to numerous rumors of Fokker insolvency up to 6.60 guilders ($4.08). However, after Fokker has accused the rumormongers for exaggerating the news, the share prices rose back to 9.70 guilders ($5.99) (International Briefs; Fokker Shares Plunge; Fake Message Cited, 1996).

Analysis

Since 1993, Fokker has plunged into the financial crisis, which it was unable to solve. This situation caused anxiety and uncertainty for the stakeholders. Employees did not know when another layoff might occur; suppliers did not know if Fokker will be able to pay; and shareholders did not know if the company will be able to create a value. Therefore, both dread and wishful-thinking rumors circulated around this issue. The dread rumors were useful for competitors, since they diminished the trust in the company and decreased share prices. The pipe-dream rumors were useful to stakeholder, allowing them to use the moment and get out of this situation with less loss than otherwise it would be.

By spreading the rumors of bailouts or potential buyers, Fokker tried to buy some time and support of stakeholders with hope of getting back on track. However, in the end, such rumors were used with a purpose of selling shares and factories without big loss.

All in all, Fokker did not deny the pipe-dream rumors and used them for its advantage. Nevertheless, it questioned the source of the dread rumors to reduce the belief in unprofitable massages. Both types of rumors were manipulated with a purpose of profit.

4.2. Case # 2 - Johnson & Johnson (J&J)

Situation

Tylenol – the alternative to the aspirin produced by McNeil Consumer Products was very successful on the market until 1982. In that year seven deaths occurred due to the Extra-Strength Tylenol consumption. The deaths occurred due to the poisoning with cyanide, which was found in the capsules (Malcolm, 1982). Clearly, it caused the panic among the citizens of the USA, and heavily damaged the reputation of McNeil Consumer Products and its parent company J&J (Bell). The Tylenol controlled 35% of the painkiller market (Lewin, Tylenol Posts an Apparent Recovery, 1982) with revenue around $1.2 million (The Tylenol Crisis, 1982).

What happened?

After theses seven death occurred and rumor grew bigger, causing great damage to the reputation, J&J decided to advise its motto of being responsible towards everyone who uses its products (Johnson and Johnson). It immediately issued an alert of the possible danger and

recalled of 31 million Tylenol bottles for $125 million (Bell). Its market share dropped to 24% (Lewin, 1982).

Although, later Tylenol was officially cleared from the rumor of being responsible for the poisoning (Producer Of Tylenol Is Cleared, 1982), it was not avoided by the public and caused a huge distrust in the brand (Lewin, 1982). Therefore, J&J had to come up with a solution how to come back to the painkiller market. Instead of dropping the Tylenol brand and jumping into the desperate state, they decided to re-introduce a new Tylenol with a triple-seal tamper resistant packaging (Hollie, 1983) that became a standard in the pharmaceutic industry. This innovation with a new advertising campaign helped Tylenol regain trust in the brand and its lost market share to 30% (Kleinfield, 1983).

Analysis

Despite the loss, J&J decided to be open about the problem. It did not try to deny the rumor, but vice versa J&J tried to help to solve the issue. J&J tried to provide the public with information to reduce anxiety. Furthermore, J&J did not perceive this situation as crisis. Instead it took it as an opportunity to improve, which it did with a new invention.

Chapter 5 Strategies to Combat the Rumor

Unfortunately, facing the rumor one should sometimes reveal more information than otherwise would (Garcia, 2001). In this case the company has to set priorities, i.e. whether it is more important to preserve the reputation and avoid further damage or it is more important to keep information in secret. It is up to management of the company to come up with the decision, but some solutions to preserve the reputation will be discussed.

In fact, when the rumor strikes, there are only two options left – deny it or accept it. The former means that one rejects the probability of the rumor being true and states that it is entirely absurd and false. The later choice means that company is willing to admit the truth within the rumor, even if the rumor itself is not completely true. That is, the parts that state the truth should be admitted and parts that are false should be explained. Furthermore, one cannot use both options simultaneously and cannot change the decision halfway, so the choice should be well thought-out.

For this reason, it is always easier, better and safely to prevent rumors getting to the company, then letting them get into the system and mess it up. However, if it has already happened, before proceeding to any mentioned below strategy, one should keep in mind that before fighting the rumor, especially trough means of its refutation, it is advisable to reduce the level of anxiety (Rosnow, 1991) for more successful rumor cessation.

Furthermore, if the rumor is false and it is possible to trace the initiator of the rumor, then it is advisable to appeal to the legal system (Rosnow, 1991). It will not only clarify the reputation, but it can work as a preventive measure for repeated cases to occur, i.e. the initiator – competitor or private individual – will think twice before resorting to such means. The minus

with this approach is that it might be costly and it might take a lot of time. To illustrate, Procter & Gamble (P&G), McDonalds and Liz Claiborne had to fight rumors that would talk about association of these companies with Satan cults and any other devil worshipping activities. However, the case of P&G can be called exceptional, because it was engaged in the legal process, where it accused Amway – its competitor – of spreading the Satanism rumors. In fact, it won a process, i.e. it got a jury award of 19.3 million dollars (Mont, 2011). However, it had to remove its trademark anyways, to resume a proper functioning and cease any possibility of similar rumor to occur.

5.1. Denial

Once the rumor strikes, the question 'to deny or not to deny?' appears alongside. If it was easy to refute the rumor by denying it, then it would be the only rumor combating strategy. However, in reality it might work as well as fail to work. Paradoxically, sometimes the more effort one puts in proving the rumor is false, the more suspicious one becomes. That is, sometimes more vigorous denial becomes indirect approval of the rumor. It is called a "boomerang effect" (Roehm & Tybout, 2006). Therefore, many researchers put effort in finding answers behind the denial process.

5.1.1. Belief and Denial

Interestingly, whether the audience has a belief in rumor or not affects the effectiveness of denial (Roehm & Tybout, 2006). Thereby, it would be highly effective to know or at least try to catch a mood of the rumor recipients. By getting this far in the thesis, one should be already

aware in which circumstances a rumor can emerge. Thus, the one responsible for risk management should be able to anticipate rumors if event calls for it, e.g. labor negotiations or change in management.

Obviously, it is hard to do by sitting in the headquarters as CEO of the global company and not all companies can afford additional department that would be dealing with such issues, so 'sonar' and/or 'radar' men (Difonzo, Bordia, & Rosnow, 1994) can be of great help in such situations. 'Radar men' can provide information on moods and attitudes in the organization, which can prevent rumor from occurring. 'Sonar men' are the ones who report the ongoing rumor to the headquarter, which reduces the time before rumor gets to the top of the company and thus helps in early intervention of the rumor. Some managers apply this in life and through 'sonar men' they get to know rumors, upon which they can decide what to do further, i.e. to leave it or test it and decide on actions (Difonzo, Bordia, & Rosnow, 1994). If the rumor is weak and has no bright future ahead, i.e. does not seem to be trustworthy and dangerous, then it is possible just to let it go without interfering and causing unnecessary attention.

5.1.2. Spillover and Denial

The ambiguity of the rumor can influence the beliefs that are not addressed in the rumor directly, which is called a spillover effect (Roehm & Tybout, 2006). It was found that in the occurrence of spillover, using denial might be effective because it will provide informative information; however, in the absence of spillover, the boomerang effect might take place (Roehm & Tybout, 2006). In the former case, the belief in the rumor exists, at least to some extent. Therefore, new information that can be supported by reliable sources or evidences can

provide the audience with lacking information that can help to come to the right solutions, i.e. it will mend disinformation holes. However, in the later case, if there is no spillover it means there is no belief formed, and the audience did not believe in rumor at the first place. If the company tries to refute what was not actually accepted by audience anyways, it might lead to the suspicion that something is going on and rumor might be actually true, rather than false.

Hereby, it is important to know if a spillover can occur. One of the cues, which can help to understand it, is the linkage between the brand and category, i.e. if the brand is representative of the category (Roehm & Tybout, 2006), then it might be affected by rumor as well, even if another brand of this category was targeted by rumor. Nevertheless, being similar does not inevitably lead to spillover effect, because brands might pursue the strategy of differentiation by using ads for that purpose. For example, Apple and Samsung phones might be similar, but Apple pursuits the strategy of exclusive and luxurious products, when Samsung is targeting middle class. Hence, by working in the same industry, they might avoid market overlaps and strong association between these brands. This is important to know, because if there is no relationship between these brands, then denial has no effect and might cause 'boomerang effect' (Roehm & Tybout, 2006). However, if there is a relationship, it is more likely for spillover to occur, which means denial tactic might be a good solution (Roehm & Tybout, 2006).

Consequently, this could be useful tip for managers – create differentiation and make the brand distinctive. It cannot only create a competitive advantage in the future, but also can protect the company from spillovers. Thus, if company X is targeted by rumor, it is less likely for company Z to be affected, even if they both are competitors in the same industry.

To sum up, if the company is already different, then denial might bring a less positive perception of the company. If the companies are related, then denial might bring more positive image.

5.1.3. Denial Message

One of the golden rules of successful rumor refutation is never to say untruth. By refuting the uncertain information by means of false and ambiguous information (Difonzo, Bordia, & Rosnow, 1994) will only trigger more anxiety and uncertainty. After all, it is not so hard nowadays to check on information and if rumor is of great scale, the media will definitely do that. If it is found out later that the company was submitting lies, this company will only damage it own reputation. Hence, refutation should consist of credible information that conveys the truth.

Moreover, information should not be dispersed. It should focus on the point one is trying to say and not deviate from it. That is, denial should be consistent (Roehm & Tybout, 2006), which can be achieved by appointing one spokesperson (Difonzo, Bordia, & Rosnow, 1994), because many people can mix information and somebody might reveal something unnecessary or provide answers that actually go against what his/her colleagues say. The consistency of the information is important for ambiguity avoidance.

Furthermore, by denying the rumor, one should give a reason for that, i.e. informative message should be provided. However, the details tend to be forgotten and one cannot control what will be remembered, so information overload is not appropriate. Therefore, one should

focus on the key points and emphasize them accordingly. Hence, the conveyed message should be rich in content, but concise (Difonzo, Bordia, & Rosnow, 1994).

In addition, the mentioning of the rumor should be avoided during the refutation process (Difonzo, Bordia, & Rosnow, 1994). There is no need to repeat what everyone who is interested in the denial knows already. After all, repetition fosters belief, but the main goal of the denial to provide another message that company wants its stakeholders to remember. In this case, additional confusion is unnecessary.

Clearly, provided information should consist of objective facts or observations. That implies that independent experts with neutral stance (Einwiller & Kamins, 2008), who can provide trustworthy information that is as objective as possible, can greatly help in the denial process, because the report of such person would give a strong argument against the rumor. Thus, to combat the rumor, it is important to show the audience that facts are derived from as objective as possible sources to avoid the distrust and suspicion that can increase the belief in the rumor. To illustrate, Wal-Mart reports about their contribution to the environment are of small trust, since there is a general distrust of Wal-Mart motives.

Finally, there are two ways of information processing, which should be taken into account before addressing the audience for more efficient message communication. Usually, people process the information systematic or heuristic ways. The systematic processing occurs when the person is eager to engage in the process of receiving information, which usually occurs if a person is motivated and capable of doing so (Einwiller & Kamins, 2008). In this case, a person is more likely to process information thoroughly and assessing all given arguments in a more

detailed way. It might happen, when shareholders are receiving information about the ongoing rumor of their company, for instance.

The heuristic processing takes place in times when a person is not interested in information and/or does not have the ability to comprehend it, which means he/she is processing information in a superficial manner and might even ignore important arguments. It might happen, when employees with limited knowledge capacities, except their own expertise, have to listen to CEOs explaining the rumor by using complicated and unfamiliar terms. In this occasion, people pay more attention to the speaker, i.e. his/her position and expertise in the field or popularity among the audience, and to the emotional conveyance of the message or any other visual effects, e.g. huge posters or slogans.

Accordingly, it is already clear that the preference to engage in one way of processing or another is not random and can be predicted. In addition to above-mentioned cues, if information is consistent with prior attitudes and is leading to the preferred consequences, then it would be processed through the heuristic system, since it will be less critically evaluated (Einwiller & Kamins, 2008). Thus, when forming a denial one should analyze the audience and point out that the preferred actions will be taken. For example, J&J did so by going back to their motto, i.e. the preferred action in the eyes of stakeholders, when the quality and safety of Tylenol – alternative to aspirin – was affected.

Thus, prior attitudes have an impact on a way person will evaluate the information. Knowing these attitudes, one can form a better refutation strategy or even leave the rumor to die on its own. After all, if a person's position falls in the latitude of rejection, one may see the rumor as more discrepant, than it actually is, which constitutes to a contrast effect (Pendleton,

1998). Hence, if the prior attitudes indicate that the rumor will be rejected, it will cause the rumor seems to be even more absurd, than it might actually be. Thus, it will not be worthy of public attention, which would lead to the natural death of a rumor (it is what Rosnow was talking about in his three stages of rumor transmission in the 'Rumor's life cycle' part of this thesis). That is why managers do not deal with every rumor. Before being concerned with another rumor, they asses the information and decide if the action is needed or the rumor is incapable of lasting long anyways.

5.1.4. Re-association

Re-association technique can be classified as another approach to the denial strategy. After all, it does not agree with the rumor and tries to divert attention from a negative side of the rumor to more positive associations. Specifically, it is exactly what McDonalds tried to do with regard to the worm meat rumor. It did not just denied the plausibility of the rumor it also tried to point out that the idea of worms is not as disgusting or unhealthy as one might think, by mentioning French cuisine. The goal was to reduce the emotional factor such as frustration and make people think clear-headed. In addition, this message reduces the importance, because the idea of worms as food is not something extraordinary anymore.

Unfortunately, re-association might be unpractical and might require some time, which one does not have to prevent the rumor from growing. Firstly, it might be hard to come up with positive and relevant associations (Dubois, Rucker, & Tormala, 2011). For example, in air pollution it might be difficult to associate polluted air with something useful or healthy. Secondly, the cost for implementing this solution in both monetary and cognitive aspects might

be too high (Dubois, Rucker, & Tormala, 2011) and not every company can afford it, especially if the damage caused by rumor was big. That is, to make people notice and believe in a new association, one would have to have money to be able to afford such campaign. Furthermore, it will take time for people to learn the new positive association. Despite these complications, it could assist in lessening the damage of the rumor to the reputation by making rumor less relevant, provided that company has resources and time to put this strategy into action.

5.1.4.1. Re-branding

Another form of re-association is re-branding, when focus is not on the rumor itself, but on the brand of the company. In other words, when the rumor is too persistent and is connected to some identity cues, then it might be the only way to save the company by re-branding it, which basically means that one should change identity to attract customers one more time (Lam, Ahearne, Hu, & Schillewaert, 2010). That was done by P&G, when they had to change their trademark to stop the rumor affecting its business. It also happened to J&J, when they had to re-introduce Tylenol after a rumor that their medicine is killing, instead of healing. J&J basically re-introduced Tylenol on the market with their new invention that become standard in the pharmaceutical industry, i.e. triple-sealed tampering (Bell).

5.1.5. Questioning

As it should be known by now, in general consumers know and spread more negative rumors (Kamins, Folkes, & Perner, 1997; Weenig, Groenenboom, & Wilke, 2001), but applying a 'rumor' label to any kind of information makes it less trustworthy and such kind of information

is less likely to be spread (Kamins, Folkes, & Perner, 1997). Thus, by inquiring the source of information, one can make people aware that it is just a rumor that is not necessarily true. Questioning is the technique that does not accept rumor; it denies it by labeling a rumor as 'rumor'.

This approach is especially useful when rumor does not sound absurd and unbelievable, but is very credible. After all, there is increasing linear relationship between confidence in rumor and its transmission rate (Rosnow, Yost, & Esposito, 1986). That is, the more credible the rumor sounds, the more likely it will be transmitted. Thereby, one way to deal with this situation is by questioning the source of the rumor. This will shake the confidence in plausibility of the rumor, which in turn can decrease the further rumor dissemination.

As it was mentioned, rumor is perceived as a less reliable type of WOM or even less reliable than ads and published sources (Kamins, Folkes, & Perner, 1997). Thus, in addition to questioning the rumor, providing more reliable sources that oppose it might make people reconsider once again if it is worth to believe in that type of negative information. Moreover, it gives the audience the answers to the questions. By saying that rumor is false, one does not leave the people confused, but re-directs them to other sources of information.

In addition, not only the belief in rumor, but also the certainty of that belief may determine whether the rumor will be accepted or not. Therefore, it is crucial to remind people of uncertainty of the rumor (Dubois, Rucker, & Tormala, 2011). Thus, in addition to questioning the source of the rumor, one should question how certain people are that this rumor is reliable.

All in all, one of the easiest ways to stop the rumor is to make it unbelievable (Rosnow, 1991), i.e. if the person does not feel and believe that the rumor is true, then that person has no

incentive to pass it on, because misleading and false information can cause damage to personal reputation. For this reason, questioning is used to create a feeling of uncertainty concerning rumor reliability, which will induce people to drop that rumor as a trustworthy source.

5.2. Open Confrontation

Apart from the denial approach, any company can confront the rumor by admitting its flaws. To be precise, the company can openly confront the rumor by admitting the truth the rumor conveys and explaining the distorted facts in it. After all, the rumor rarely appear randomly, there should be some cause to trigger the rumor generation, so it is most likely for a rumor to convey some part of the truth.

By pursuing the open confrontation with the rumor, company pursuits a strategy of transparency, which nowadays is warmly welcomed by stakeholders. However, it does not mean that company has to disclose its every move; it should bear in mind the principle of informativeness. That is, the communication of information becomes relevant and important when added value is applied (Roehm & Tybout, 2006). In other words, when the other party was unaware of the particular piece of information, it becomes meaningful and informative. Thus, when company is planning to reveal information, it should bear in mind that restating what the recipient already knows does not bear a value and less likely to bring change.

The informativeness is needed to prevent the rumor for dissemination, because it performs the function of 'fill-in-the-blank', i.e. explain the unexplainable (Difonzo, Bordia, & Rosnow, 1994). Clearly, people are troubled by changes and when something out-of-routine happens, they need information to calm down. After all, people feel the most comfortable when they can

control the situation (Garcia, 2001), which is provided by knowledge of what will happen and how. Thus, informativeness is necessary to decrease ambiguity and uncertainty.

Furthermore, simply disclosing facts is not enough for successful rumor confrontation. The way the information is conveyed might determine the effect of this strategy. Therefore, it is important to appoint the right speaker, whose status is suitable for the situation. Too high rank can actually make people think that rumor has a point and it is much more serious (Difonzo, Bordia, & Rosnow, 1994), otherwise why for a person of high status to bother with such a small and insignificant issue. Furthermore, the presentation of a message should take place in a relaxed manner (Difonzo, Bordia, & Rosnow, 1994), so that to reduce anxiety. Even if the situation is very problematic (as it happened to J&J with Tylenol issue) and causes distress among the audience, it might only fire up the anxiety if the speaker is nervous and stressful on his own. It is also a perceived sign of lying. On the contrary, the worries can be reduced if speaker is relaxed, because it is a sign of control and indirect reassurance that everything will come to normal.

Besides informativeness, the company has to state it clearly which parts are false and which are true. As Allport and Postman suggested there is truth in a rumor, just degree of it varies (Garcia, 2001). Since rumors are not completely groundless and based on at least some kind of truth, the company has to admit the truth (Difonzo, Bordia, & Rosnow, 1994) and provide solutions. For instance, it can give reassuring statements such as "we understood our mistakes and now knowing them we are able to improve" or "we apologies for letting that happen and we are working on …" etc. It is important though, not to blame somebody for mistakes. After all, if something what caused a rumor happened, it is obvious that it is not one-sided mistake and there is some part of responsibility on the company. Thus, trying to avoid responsibility is not the best message one would like to spread while trying to fight the rumor.

In addition, open confrontation calls for a dialogue, so the company can organize a "town meeting" (Difonzo, Bordia, & Rosnow, 1994), where the rumor will be discussed. This method can substantially reduce the uncertainty and anxiety, if done well. During the dialogue the troubling questions can be asked and immediate feedback can be received, providing answers that fill the gap of lacking information.

5.3. Prevention

The above information gives some advices how to act when the rumor has already occurred. However, as with illness, the same with the rumor – it is better not to let it appear at the first place and secure oneself from unnecessary costs.

5.3.1. Training

Research about the rumors in a stock market, proposes that training is capable of altering casual attributions, which might reduce damage caused by rumor (DiFonzo & Bordia, 2002); via training one can interpret the effect of the rumor as less harmful than without it. Training should teach a person to see results in a different light and without excessive exaggeration.

Therefore, it is advisable to provide training to employees, where the critical thinking can be developed and where they will be taught how to act accordingly in certain circumstances. If there is a crisis, employees should remain unaffected and perform well to generate positive WOM (Davies, Chun, & Kamins, 2010). Negative rumor generates negative WOM, but if employees perform well, then a gap between what is said and what is in real life will be created. That in turn can reduce the credibility of rumor, because the real life experience does not

correspond to the rumor. Encountering the rumor, it is important to face it with dignity and such behavior might turn out to be rewarding. Moreover, it applies to online companies as well, as long as they have call services. In addition, even without rumor, such abilities as critical thinking and appropriate behavior will not go to waste, but rather will increase the capabilities of the workers, which might positively affect the job quality.

However, the setting of such workshops should be done appropriately or it can backfire and deteriorate trust in the company. For example, organizing such workshops during the climate of distrust might be an indirect sign that rumors are true, but the company tries to make a fool out of its employees by saying that they do not have enough ability to evaluate information in the right way. Hence, if rumor has already appeared it might be too late to resort to such actions. After all, when somebody thinks that spoken information is specially tailored for persuasion, that person will develop resistance and will not be willing to accept the message. Therefore, the best solution is to make these workshops as part of the corporate culture and as a normal routine for workers to undergo, so that there would not be suspicion of conspiracy against employees.

5.3.2. Conformity

If company does not conform to the expected behavior, then it might be penalized by rumor spreading. Therefore, conformity might be not just passive response to the environment, but an "expression of strategic intent" (Philippe & Durand, 2011), which can be included in the reputation management. Conformity is not static concept; the degree and the way to express it can be manipulated with accordance to the situation (Philippe & Durand, 2011). Strategic

conformity cannot only safe from rumormongering, but also help to achieve higher payoffs (Philippe & Durand, 2011).

5.3.3. Loyalty

It was already discussed that loyalty of the stakeholders to the company can work as a buffer in crisis situation, including rejection of the rumor. Accordingly, the company should focus on a generation of identification of stakeholders with a company that will eventually lead to loyalty. The loyalty can be built through satisfaction (affective construct) and commitment (cognitive construct). The former is more suitable and important for new customers, to attract them to the company. While the latter one is necessary for old customers, to show that they are appreciated and remembered (Lam, Ahearne, Hu, & Schillewaert, 2010).

5.3.4. Media

It is important to avoid the transmission of ambiguous information, which means that monitoring the news reports is necessary. Whenever confusion arises, one should act swiftly, before it can damage the reputation. It can be done by monitoring the hubs of the networks, so that to identify the moods and understand trends.

5.3.5. Communication

Nowadays it is important to communicate all the time. If one does not want to do that, then somebody else will do it instead. Clearly, it is an undesirable outcome. The company wants to

control what is communicated about it. However, to do that that company has to provide information, that is, it has to be transparent and communicate in clear and simple way for a wider public to understand.

5.3.6. Reputation

As it was continuously implied, a positive reputation is very important and useful in times of crisis management, including rumor combating. A strong and positive reputation is paramount. If the audience trusts the company and its spokespeople, then it is easier to prevent rumors or kill them at the beginning. Therefore, investment in a reputation for credibility (Garcia, 2001) will pay-off well as security for bigger damage.

Chapter 6 Conclusion

This thesis provided valuable insights for crisis management. More specifically, reputation management during the rumor attack on the company.

6.1. Nature of Rumor

6.1.1. Information Gap

Provided the above information, one can see that rumors work as substitutes for news, when no other source of information is available. It is necessary for reducing uncertainty and anxiety and providing control of the situation. Therefore, rumors in general are more likely to appear in a situation with lack of relevant information. This informational gap allows people to speculate on possible events and consequences of these events. For this reason, secret negotiations that are closed to the public invite rumors to appear. For example, labor negotiations often have plenty of rumors going on around, because of the closed-door meetings among few representatives (Rosnow, Yost, & Esposito, 1986; Difonzo, Bordia, & Rosnow, 1994). Thus, the main and most important thing to do to prevent the rumor is to provide stakeholders with relevant, clear and as full as possible information to satisfy their needs of curiosity and to prevent an occurrence of uncertainties.

6.1.2. Transparency

The degree of transparency to the public is determined by the necessity of either industry to reveal its activities. For instance, being 'green' has become quite relevant topic in society; therefore, companies should be more transparent on their activities within this area. In addition, after the recent and quite devastating financial crisis, financial industry should become more clear and transparent to gain the trust of the people. Thus, the nature and degree of provided information is determined by the level of trust the company needs to receive from its stakeholders.

6.1.3. Trust

As it was explained, trust is an important concept, which is relevant for both rumor spreading and reputation management. Reputation management is about building the trustworthy relationship between the company and its stakeholders. Rumor acceptance or rejection is about trust in the rumor communicator and rumor target. In both cases, trust works as a buffer in crisis situations that gives some indulgence to the target company. Since trust is paramount, company should invest in trust building activities, by being transparent, sincere and participating in the events of public concern and importance.

6.1.4. Certainty

Equally important, the information certainty might deteriorate with time and transform the fact into the rumor or rumor into the fact. This transformation can damage the reputation, especially when the rumor gets the benefits of the fact. The more certain information is more

likely to be communicated. Hence, if the negative rumor is perceived as more certain, it is more likely to be accepted makes people more likely to accept the communicated message and transfer it further.

The certainty issue is especially important for online companies to show how certain the reliability of the information is. This can be implemented through the certainty barometer inclusion, for example, ask experts to provide their opinion on the product or service or simply include certainty scores, where reviewers will show how certain they are about their opinion (Dubois, Rucker, & Tormala, 2011), which will make these reviews more reliable.

6.2. Reputation and Rumor

6.2.1. Positive Rumors

It was discussed that not all rumors bear negative consequence, even positive rumors might become a burden as well. Positive rumors are more likely to appear in situations when people hope for their wishful thinking to be true (Rosnow, Yost, & Esposito, 1986). The existence of such rumors should not be left unattended though. They can work as an indicator of wishes and hopes, e.g. the provision of bonus premium or bigger dividends. Even if it does not cause any ruptures for a moment, if the wishes are not met, it might affect the overall moral of workers and loss of valuable employees. Thus, if it is possible to satisfy the needs of people, one should do that and grant a wish.

On the other hand, positive rumors are able to create an awareness of the brand or the trademark of the company. This will work as positive WOM and reduce the marketing costs. It is

especially important for the companies that provide experience goods such as law or accounting services. For example, rumor about *Facebook* working on its phone development is a good way to attract stakeholders' attention. This move shows that *Facebook* has not exhausted yet, and is worthy of financial investment (Copeland, 2012).

6.2.2. 'No Comment'

As a matter of fact, many companies are committing the same error that proved to be ineffective, i.e. they are answering 'no comment' when the crisis situation occurs (Kamins, Folkes, & Perner, 1997). Of course, it is more reliable to say nothing, if one does not know what to say; otherwise, one might end up saying unnecessary things that might worsen the situation. However, it does not satisfy the audience. This answer brings more confusion, than clarity. The company needs to clarify the source (Kamins, Folkes, & Perner, 1997) and provide information that the audience lacks to make reasonable conclusions, which can be done by applying above-mentioned strategies.

Clearly, many companies do not want to disclose a lot of information, because they want to secure their competitive advantage and do not want to supply excessive information to competitors. In that case, stating that rumor is simply rumor and providing no more information is equivalent to saying 'no comment'. Provided such situation, both questioning and re-association techniques have more chances to diminish the importance and prevent further transmission of rumor, than denial alone (Dubois, Rucker, & Tormala, 2011).

If one does not want to resort to any of the above-mentioned techniques or is unable to do that, it is advisable to listen to Horton's suggestion. He points out that if one says 'no comment',

then an explanation of the reason behind this answer should be provided. For example, make rumors seem so ridiculous that it is not worth commenting because you believe that people are much more reasonable to understand its absurdity (Difonzo, Bordia, & Rosnow, 1994). Otherwise, 'no comment' sounds as company does not want to respond, because it has something to hide (Difonzo, Bordia, & Rosnow, 1994). This creates additional uncertainty and greater anxiety.

6.2.3. Rumor as Opportunity

Though rumors can severely damage reputation, these situations might turn out to be useful for the future reference, unless the company failed to function. In fact, rumors can point out to the flaws of the company that should be fixed. Hence, mild or small negative rumors could act as catharsis for a possible greater crisis that could be caused by these flaws. That opens up a new perspective of viewing the rumors and their impact on the company. That is, instead of looking at it as a cause of all disasters, one could look at it as a trigger for opportunities or mending mechanism. Therefore, by taking care of the rumors, the company could announce to the public that it has understood its lesson and will strive for improvement.

Interestingly, rumor can also make people aware of the product and company. In other words, rumor can be transformed into marketing move, provided that management of the company knows how to control the rumor. Event though, positive rumor is self-evident marketing move, the negative rumor can create product or brand awareness as well. Therefore, in cases the negative rumor attacks, it is important to have a mindset of encountering the rumor as a challenge, rather than crisis. It is crucial for a more successful exit out of the crisis situation.

Thereby, one should understand that rumor is simply a tool, which can be used against the company or for its benefit. It can be prevented and controlled if necessary. To illustrate, although *Apple* was facing a lawsuit, it turned its crisis situation into the advertising strategy by providing positive rumors about future products (Wegner, 2012). That is, *Apple* provided an interesting piece of information that might divert attention from the lawsuit.

6.3. Media and Rumor

Rumor is a substitute for the news, which makes it dwell in the same environment and be communicated in a similar way. It is also the reason for rumor being fast and widely spread. This was explained with a help of 'forty-five minutes, six hours, three days and two weeks' rule that showed the pattern of rumor spreading.

Rumor has infiltrated the media that much that it is present in any media type. It can be communicated via radio, TV, newspapers and even the Internet. The former type of the media is unique, because rumors there can persist for a long period of time. There are even websites created for a rumor spreading purpose. For example, *FuckedCompany.com* was spreading rumors, usually negative, concerning the company issues. It even offered people to bet on the possibility of rumor being false or true. On the contrary, *TechCrunc.com* company is often posting more positive rumors, which provide the audience with various arguments for and against.

However, it does not mean that the media makes rumor invincible. Even the Internet can help in rumor management, especially, so called 'hubs'. By controlling these hubs, one can have

a better overview of the rumor generation and further development, as well as a reaction to the news. This can give valuable hints for choosing the strategy, if any is needed.

Furthermore, media is not only for rumor transmission, it can communicate any type of news. Nowadays, with the help of the Internet, this process has become easier and can be communicated to the wider public. This means that companies can use media too. However, instead of spreading ambiguous information, it could use the media channels to communicate official statements, including rumor denial.

6.4. Strategies to fight with a Rumor for Reputation Decline Prevention

In general, rumor management works as reputation management, i.e. the main goal is to "amplify positive and conceal negative cues of the organization" (Mishina, Block, & Mannor, 2012). Negative rumors that concern with capabilities of the company can be combated by intensifying the focus on the company's positive capabilities and by preventing the mentioning of the rumor. Positive capability cues, rather than negative ones, have higher diagnosticity. They provide greater influence on capability reputation (Mishina, Block, & Mannor, 2012). Thus, one should emphasize the company's abilities to create value to stakeholders and indirectly attribute the negative cue – rumor – to the external factor.

On the other hands, if rumor damages character reputation, then the company should put its resources and efforts towards minimizing the importance of the rumor (Mishina, Block, & Mannor, 2012). It could be done by questioning the validity of the source of the rumor by blocking the further spreading of rumor or re-associating the negative connotation of rumor with something positive. However, mentioning only the history of the company without doing

anything in the present is inefficient and will not help on the long-run, because past actions can be re-evaluated by stakeholders.

To sum up, from two types of reputation, character reputation seem to bring greater competitive advantage, because it is easier to harm and harder to build, than a capability reputation that can be built on the basis of occasional show-off. After all, it occurs more often to meet the company with good and strong capability and poor and bad character reputation (Mishina, Block, & Mannor, 2012), since it is relatively easier to maintain capability reputation.

6.5. Rumor Management

Any crisis communication, including rumor, consists of three Rs: research, response and recovery (Gaultier-Gaillard, Louisot, & Rayner, 2009b). When rumor occurs, one should research the situation and get as much information as possible to make the best decision. When the first step is done, the company should respond to the rumor as fast as possible in the most appropriate manner by applying one of strategies discussed above. Finally, after the first two steps are completed, the company should plan the recovery, since it is doubtful that rumor did not affect the reputation if not within one, then another group of stakeholders.

Without objective information, people will turn to subjective, i.e. the one they derive from their prior attitudes. Therefore, the response step is very important. During this period, a lot of pressure is put on spokesperson, since his/her presentation might affect whether rumor will proceed further or stop. The person should display the traits of leader. He/she should be able to counter react to the possible questions and should be open to criticism.

Furthermore, if people know that they were informed about the worst, they can see the limits of the rumor (Garcia, 2001) and it will be enough for them to plan how to proceed and what to expect. By giving information, one provides time for preparation. Thus, information should be exhaustive and should mention all relevant points. It could be done through a daily briefing. Main thing is to find a balance between what to let the audience to know and what the audience wants to hear from the company, which could be done through emphasizing the key messages one wants to deliver.

6.6. Limitations

Unfortunately, this research does not have a sufficient amount of data to build exhaustive arguments. Moreover, the gathered information was personally interpreted, which is bound to subjective bias. Finally, this research is built on the previous findings; thus, it does not provide any new data or findings.

6.7. Recommendations for Future Research

There are still not enough data gathered with regard to the rumor topic. Hence, it would be interesting to see more empirical and quantitative findings for better understanding of a rumor impact on the reputation and its combating strategies.

Furthermore, many rumor researches do not take into account the Internet possibilities. However, the rumor is circulating in this type of media as well. Because of its unique characteristics and importance of the online reputation, it would be suggestible to research this issue further.

Finally, stakeholders are usually referred to as one entity, but every stakeholder group deserves attention. Therefore, a more thorough research that would take this nuance into account would be interesting to see.

6.8. Conclusion

Both rumor and reputation work as references to information, when official sources are unavailable, and yet they work differently and influence each other in different ways.

This thesis provided some background information about the rumor and its function in the marketplace, as well as about reputation and its management (Chapter 3). In addition, a few cases were described to show life-examples of rumor consequences and the way to deal with them (Chapter 4). Finally, a practical solution for rumor prevention and its elimination were presented (Chapter 5).

All in all, there are two important messages one should remember. Firstly, there are two main strategies to combat the rumor – denial or acceptance. Each of them provides its benefits and loss. The denial route might require a more thorough situation and public examination, but can successfully get rid of the rumor. While, the acceptance route is quite simple and does not require big preparations, it has a risk of making rumor more visible, rather than invisible. Hence, the management of the company should be able to have a good overview of the situation and act upon the desirable effect.

Secondly, a rumor is neither negative nor positive. It is simply a tool to understand the world, to hurt the competitor or create the profit. Therefore, one should always remember that out of any rumor it is possible to create opportunity.

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