Can Rumor Clarification Eliminate the Effects of Rumors?
Evidence From China

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ABSTRACT
This article analyzes the effects of rumor and official rumor clarification on Chinese stock returns under different rumor conditions using an event study. The results are based on a sample of 832 rumor clarification announcements from China Listed Companies spanning the period of 2015 to 2017. The results show that the average cumulative abnormal return after the rumor event is significantly positive in the positive rumor sample and neutral sample, and significantly negative in the negative rumor sample. After the clarification announcements, we find the announcements effective for the positive and neutral rumor sample, but not in the case of the negative sample. However, by comparing different clarification times of each sample, we find that the earlier the clarification time is, the smaller the impact on the companies in positive and negative rumor examples.

KEYWORDS
Event Study, Rumor Clarification, Rumors, Stock Price

1. INTRODUCTION
It is difficult to dispute that rumors have an important influence on corporate value, namely stock prices. Phrases like “Stock X soared amidst rumors of ...” can be read or heard almost daily in the popular media. In recent years, the Internet has proven a productive incubator of rumors (Van Bommel, 2003). Investors exchange information in chatrooms, newsgroups, and message boards. Rumors can also spread through word of mouth or newsletters. Kapferer defines a rumor as the emergence and spreading of information in a societal organism that either has not been yet publicly confirmed or been denied by official sources (Kapferer, 1996). At the same time, the influence of rumors on the company has also been increasingly concerned by researchers and practitioners. The rumors of listed companies caused abnormal volatility in stock prices (Lim and Kong, 2004), increased the operating risk of listed companies (Kiyimaz, 2002), and had a certain impact on the stability of the securities market.

For a long time, limiting the spread of rumors in online social networks (OSN) has been an important but difficult problem to be addressed. There are mainly two ways to solve this problem

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Currently, 1) blocking rumors at the most influential users or community bridges, or 2) spreading truths to clarify the rumors (Wen et al., 2014). Both methods claim to have better results according to their own considerations and environments. However, for most companies, it is the easiest and quickest way to publish rumor clarifications announcements, as well as the lower technical requirements. Previous studies have shown that rumors can have a big impact on the market, resulting in abnormal fluctuations in stocks and yield positive abnormal returns (Yang and Luo, 2014). However, the existing research seldom involves the performance of the company’s stock price after the clarification or denial of rumors. This study therefore attempts to investigate the validity of the stock market after the company clarifies the announcement.

Empirical research shows that stock prices react differently to company news accordingly concerning corporate or market conditions (Below and Johnson, 1996; Docking and Koch, 2005; Lee, Kuo, and Yen, 2011; Mian and Sankaraguruswamy, 2008). In recent years, a growing number of researchers are beginning to pay attention to the impact of news on the company, such as reducing information asymmetry between shareholders and firms to improve the efficiency of financial markets. Meanwhile, the financial market is an ideal place for rumors and their dissemination for several reasons: the number of participants is limited, the actors are all experts in the field and flooded with news, time is crucial, and a financial risk is always involved (Schindler, 2003). As a result, research on rumors and rumor restricting in the financial markets has been increasingly concerned by scholars.

For the following three reasons, our research focuses on a developing country, China. First, the securities market in China is full of rumors which are easier to collect. There are a large number of speculators in China’s stock market and they believe there are a lot of information leakage and insider transactions in the stock market; therefore, it is reasonable for domestic investors to take rumors into account in their equity investment decisions, in contrast to investors in markets where information leakage is strictly forbidden. In addition, in the case of asymmetric information, speculators have an incentive to influence investors’ decisions by creating and spreading rumors.

Second, starting in 2007, the China Securities Regulatory Commission (CSRC) issued a new rule, the Administrative Measures on Information Disclosure by Listed Companies, which applies to all firms listed on the Shanghai Stock Exchange (SHSE) and the Shenzhen Stock Exchange (SZSE). It stipulates that all the listed companies should promptly clarify rumor announcement when there are rumors. The implementation of this new rules and regulations provides an ideal way to observe the influence of rumor clarification on the performance of the company’s stock price using event-analysis.

Third, this paper extends the analysis to the Chinese stock market, which is different from the other developed countries’ stock market, including both Shanghai and Shenzhen Stock Exchanges and provides new insights into developing equity markets. There are only a few institutional investors in China’s A markets with a large number of individual investors (Green, 2003). One of the biggest problems facing traders is lack of transparency. The corporate announcement requirements of listed companies in China are neither perfect nor well developed, and significantly less comprehensive compared with the financial markets of developed countries. Therefore, the trading behavior of investors in China financial market is inconsistent with those in other developed markets. By following the market consensus, investors can make investment decisions according to others who may be more aware of the development of the market. Given the growing significance of China’s stock market, along with its unique microstructure features and traders coping with a Communist (but increasingly market oriented) government, it is important to understand how traders in Chinese markets in this process of transition behave.

Our paper concentrates on the effect of rumor clarification as well as the rumors themselves; this is quite different from previous research that focuses solely on rumors or rumor clarifications. The efficient market hypothesis (EMH) suggests that stock prices instantaneously reflect changes in fundamentals. Accordingly, we expect to find explicit evidence that when rumors turn out to be false, stock prices plummet right after the announcement. However, applying the EMH to investigate
Internationalization Process of Innovative SMEs in Lebanon: An Analysis with a Conceptual Model
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