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Crisis Communication  
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of Enterprise  
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# Exploring Corporate Crisis Communication after COVID-19: The Role of Enterprise Risk Management in (Re)Building Trust

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**Abstract:** This study aims at investigating whether Enterprise Risk Management (ERM) sophistication shaped different COVID-19 crisis communication strategies. We assess the level of ERM sophistication of the FTSE-MIB Italian listed companies, and we study the pattern of risk communication strategies building on Situational Crisis Communication Theory (SCCT). We find that companies with a low level of ERM sophistication generally adopt a crisis communication strategy based on a “denying/diminish” approach. In contrast, companies with higher ERM sophistication adopt a “diminish/rebuild” strategy. Our results extend previous literature on crisis communication by looking at the unique case of the COVID-19, a non-company-specific crisis that hit all firms. Results show company crisis communication strategies depend on prior risk management characteristics. Thus companies willing to protect their reputation and (re)build public trust because of a crisis should invest not only in risk communication but also in their risk management process.

**Keywords:** COVID-19, Enterprise Risk Management, Situational Crisis Communication Theory, Risk communication, Crisis communication strategies, Corporate reputation.

**JEL Classification Numbers:** M14 – G3

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# Introduction

For many messengers, the ultimate goal of transparency is to (re)building public trust (Balog-Way et al., 2019; Carpenter, 2017; Dixon et al., 2016; Dudley and Wegrich, 2016; Löfstedt and Boudier, 2014; O'Connor, 2016; Way et al., 2016). When messengers reconceptualize transparency as a risk communication process, then research can be usefully applied to identify the approaches for (re)building trust (Way, 2017). Businesses are facing an evolving landscape of emerging non-financial risks, such as environmental, social, and governance risks, that can impact a company's profitability or even survival. Over the past decade, the prevalence of non-financial risks has steadily increased while the more traditional economic, geopolitical or technological risks are less dominant. Companies of all sizes have experienced instances of product safety recalls, worker fatalities, child labor, forced labor, polluting spills, and weather-related supply-chain disruptions. Failure to manage these emerging risks proactively has translated into extensive financial and reputational harm – in some cases to the point of no recovery.

For these reasons, our study investigates risk communication especially in crisis contexts by adding a novel element that may shape the choices of companies (i.e. messengers) in an uncertain environment, that is Enterprise Risk Management sophistication. Thus, our study contributes to the recent literature on risk (e.g. Balog-Way et al., 2020; Byrd and John, 2021; Rahn, et al., 2020; Rossmann et al., 2018) and crisis communication (e.g. Corazza et al., 2020; Laurant et al., 2019; Sellnow et al., 2019; Stubbè et al., 2015), focusing specifically on corporate reporting and the role played by Enterprise Risk Management in (re)building trust.

Enterprise Risk Management (ERM) is defined as “a process, effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of the entity's objectives” (COSO, 2004). In particular, it is different from the previous form of risk management as it overcomes a silos perspective focusing on a holistic (including non-financial risk assessment) and transversal (across functions) risk management instead. Recently, Pagach and Wiczorek-Kosmala (2020) call for research

on ERM effectiveness and COVID-19 disclosure. COVID-19 indeed represents a unique setting to explore: keeping the external crisis constant, the current study aims to investigate internal risk management differences among companies and their effect on crisis communication.

Information and communication form an important part of the risk management process. Risk analysis indeed includes risk communication (SRA, 2018). Thus risk communication – the flow of information among the parties involved in risk processes – is a critical success factor of an ERM initiative (Oliveira et al., 2019) and it is an essential step for external stakeholders to understand how companies handle risks, even more in a crisis context. For these reasons, we investigate whether COVID-19 crisis communication strategies (in corporate annual and intermediate management reports) vary across companies, depending on their prior level of ERM sophistication.

Relying on Smallman (1996) and Arena et al. (2011), the approach to risk management can be anticipatory (high ERM sophistication) or reactive (low ERM sophistication) and we expect crisis communication to be influenced by such different ways to deal with risk and by the risk culture. ERM requires companies (among other things) to identify potential negative events and manage risk through response strategies (COSO, 2004), and it shapes how unforeseen events are managed and communicated. Situational Crisis Communication Theory (SCCT) (Coombs, 2007) provides a useful framework that companies can employ to maximize the reputational protection afforded by post-crisis communication. Based on the type of crisis (i.e. victim, accidental, and intentional crises) a matching crisis response strategy has to be selected (i.e. deny, diminish, rebuild) to minimize the impact on reputation (Crijns et al., 2017).

From an SCCT perspective, however, COVID-19 is categorized as a victim cluster crisis, in which corporations are perceived as the victim rather than the cause of a crisis (such as for natural events). Therefore, the expectation is that the best communication strategy is “denial”: companies seek to establish a crisis frame attempting to remove any connection between the organization and the crisis. Furthermore, SCCT would predict no significant changes in communication strategies among companies because no particular company can be held accountable for the pandemic nor can be directly connected to it.

Such predictions based on SCCT are not obvious, because the health and, subsequently, the financial crisis triggered by the COVID-19 pandemic has a striking characteristic when compared to the typical crises analyzed by SCCT. Any specific firm did not cause COVID-19, but rather it affected all the companies in the world. In other words, the COVID-19 outbreak was an exogenous and generalized event. Instead, the crisis events studied by SCCT are typically caused by one or more firms (e.g. the Deepwater Horizon oil spill caused by BP) or are tightly linked to specific firms (e.g. the Fukushima disaster and the companies operating in the surrounding area).

After being identified in China in January 2020, the second country hit by COVID-19 has been Italy. Furthermore, many regulatory reforms have taken place on the subject of corporate governance and risk management communication, even just after the COVID-19 crisis. Therefore, Italian listed companies represent a good setting to be investigated assuming companies already have in place some form of ERM.

For these reasons, our study focuses in particular on the sample of FTSE MIB listed companies, which represents 80% of Italian stock exchange market capitalization. We follow Florio and Leoni (2017) to assess ERM sophistication in the Italian setting. Then, through thematic analysis (Auerbach and Silverstein, 2003) and relying on Coombs' framework (2007) we investigate the type of communication strategies adopted by companies in their annual reports and intermediate management reports. We find that companies with a low level of ERM sophistication adopt "denying/diminishing" crisis response strategies. In contrast, companies with a high level of ERM sophistication generally use "diminishing/rebuilding" crisis response strategies.

The rest of the paper is organized as follows. Section 2 discusses the different approaches to ERM while section 3 presents the Situational Crisis Communication Theory. Section 4 underlines the peculiar characteristics of the context analyzed; section 5 is devoted to the research design and methodology; section 6 describes our main findings. Finally, section 7 provides a discussion of our results and some conclusions.

# 1 Enterprise Risk Management

The introduction and development of ERM systems reduce direct and indirect costs of financial distress and earnings variability, as well as negative surprises in financial markets (Florio and Leoni, 2017, p. 56). Risk management is deemed to improve performance because it helps firms to avoid losses, bankruptcy, and reputational costs (Baxter et al., 2013; Gordon, et al., 2009; Pagach and Warr, 2011). It is also supposed to enhance firms' decision-making (Farrell and Gallagher, 2014; Grace et al., 2015; Nocco and Stulz, 2006).

Despite previous studies highlighting the critical success factors and their effective influence on the implementation of ERM in the organizational environment (for all Oliveira et al., 2019), there are systematic variations in risk-management practices (see Mikes, 2008; 2009; 2011). Smallman (1996) proposed holistic risk management that is characterized by three main aspects: 1) continuous monitoring of all sources of risk; 2) a combination of qualitative and quantitative techniques on risk assessment and risk monitoring; and 3) organizational learning where one learns from past errors and disasters and where a culture allows for a positive approach to dealing with mistakes and not punishing employees for mistakes is established in the company. According to the different degrees of the three main aspects, some companies have a proactive approach to risk management while others have a reactive approach to it (Smallman, 1996; Arena et al., 2011).

In line with Smallman (1996), the reactive approach relies on institutions setting predetermined risk tolerances and converting these goals into quantified decision rules. According to this risk approach, most organizations rely mainly on risk retention (i.e. accepting loss) and risk transfer (i.e. some other institution will bear the loss) as their principal means of risk management. Following such an approach has a lower level of the risk assessment process and a lower integration in corporate governance, that is a low ERM sophistication (Florio and Leoni, 2017). However, achieving satisfactory risk management requires that organizations pay more attention to risk avoidance, prevention, and reduction. This latter approach falls in line with the concept of a holistic approach to risk management, integrated into corporate governance and with a more complex risk assessment process, i.e. high ERM sophistication. The essence of this latter approach is the consideration of all risks (both financial and non-financial) and

their interrelationships on a proactive basis, “driven by potential risk and not by events” (Smallman, 1996, p. 14). Therefore, leveraging a company's ERM sophistication can support the identification, assessment, and mitigation also of non-financial risks at an enterprise level.

We expect companies with a more sophisticated ERM – which allows them to have a proactive and broader approach to all kinds of risks – to adopt a different approach to risk communication and reporting than companies with a reactive approach to risk management. This even more in response to a crisis triggered by non-financial risks such as those of COVID-19 pandemics.

## **2 Situational Crisis Communication Theory**

A crisis is a sudden and unexpected event that threatens to disrupt an organization’s operations and poses both a financial and a reputational threat, if not correctly handled. A threat represents the potential damage to an organization, its stakeholders, or an industry in terms of public safety, financial loss, and reputational harm (Coombs, 2015).

The communication strategy that is used in a crisis influences the way people perceive the crisis (Lauran et al., 2020). When hit by a crisis, companies disclose information to limit the damages to their reputation and to provide information to stakeholders, who want to know what is being done to protect them from similar crises in the future and what corrective actions are being taken. One of the first scholars who extensively studied this research theme is William L. Benoit. In his crisis communication theory (Benoit 1995, 2013), he provides a conceptual link between reputation risk management activities undertaken by organizations and discourses that one may observe as a result of the need for image restoration strategies.

More recently, Timothy Coombs (2007) proposed the Situational Crisis Communication Theory (SCCT), which provides a framework for understanding how to maximize the reputational protection afforded by post-crisis communication. Notably, Corazza et al. (2020) extend SCCT to the context of corporate (sustainability) reporting.



Such a theory suggests that an organization in crisis should match its crisis response strategy to the degree of responsibility that is attributed to it for the crisis (Crijns et al., 2017, p.145). SCCT research has identified three crisis clusters: (1) the victim cluster has very weak attributions of crisis responsibility (natural disasters, workplace violence, product tampering, and rumor) and the organization is viewed as a victim of the event; (2) the accidental cluster has minimal attributions of crisis responsibility (technical-error accident, technical-error product harm and challenge), and the event is considered unintentional or uncontrollable by the organization and (3) the intentional cluster has very strong attributions of crisis responsibility (human-error accident, human-error product harm and organizational misdeed) and the event is considered purposeful (Coombs and Holladay, 2002).

SCCT identifies how critical facets of the crisis influence attributions about the crisis and the reputations held by stakeholders (Coombs, 2007, p. 163). One of the central ideas of SCCT is that the reputational threat to an organization increases as stakeholders' attributions of crisis responsibility to the organization intensifies (Coombs, 1995; Coombs and Holladay, 1996; 2002; 2004). This depends on how companies frame the crisis. The framing effect occurs when a communicator selects certain factors to emphasize so that the people who receive the message will focus their attention on those factors when forming their opinions and making judgments (Druckman, 2001). These cues indicate how stakeholders should interpret a crisis (Coombs and Holladay, 2002). A crisis manager tries to establish or shape the crisis frame by emphasizing certain cues, for instance specifying whether or not some external agent or force caused the crisis, whether the crisis was a result of accidental or intentional actions by members of the organization and whether the cause of the crisis was technical or human error. The primary SCCT crisis response strategies form three groups based upon perceptions of accepting responsibility for a crisis: (1) denial, (2) diminish and (3) rebuild (Coombs, 2006). Deny strategies seek to establish a crisis frame attempting to remove any connection between the organization and the crisis. The diminish crisis response strategies argue that a crisis is not as bad as people think or that the organization lacked control over the crisis. To change perceptions of the organization in crisis, managers present new, positive information about the organization and remind stakeholders of past good works by the organization. Rebuild strategies attempt to improve the organization's reputation by offering

material and symbolic forms of aid to victims. Such categories can be further broken down (see Coombs, 2007) according to the framework described in Table 1. While a single strategy may be used in any particular circumstance, the use of a combination of strategies is also likely. Furthermore, there are some secondary response strategies that bolster crisis communication.

**[Insert Table 1 near here]**

Unlike in preventable and accidental crises, in a victim crisis, the organization is not responsible for the crisis and is itself a victim (Crijns et al., 2017). Thus, there are only weak attributions of crisis responsibility, and there is only a low reputational threat as the public might identify with the organization in crisis and have compassion (Coombs, 1995). However, three salient features differentiate pandemic communications from the typical communication setting studied by management scholars. First, the pandemic generated an extreme level of uncertainty, shared by both communicators and listeners. Second, the pandemic created information disorder, disrupting the normal manner of information processing and decision making. Third, the pandemic is characterized by a flood of information that overwhelms listeners (Guo and Cannella, 2021). When uncertainty is shared, selectively sharing information may engender mistrust and harm communicators' credibility. In contrast, using communication as an opportunity to openly and honestly share information with listeners to jointly make sense of an uncertain situation may be a more viable approach (Guo and Cannella, 2021 p. 2). Thus our overarching research question is: When uncertainty is shared, as in the COVID-19 context, what corporate factors influence companies' choice of communication content and how?

### **3 Regulatory Framework of Risk Management, Covid-19 Crisis, and Market Authority's Intervention in Italy**

The Italian context represents a meaningful setting to perform our analysis for three main reasons, as explained with greater detail in the following. First, Italian listed companies have already developed some form of ERM for a long time because of the regulatory framework. Second, Italy was the first country mostly hit by COVID-19 immediately after China. Third, the Italian National Market

Authority (CONSOB) required companies to provide updated information in the management report on the risks associated with COVID-19 and its potential impacts.

Notably, many regulatory reforms have taken place on the subject of corporate governance in Italy and it was one of the first countries to have adopted a Self-discipline Code drawn up by the Committee for Corporate Governance of the Italian Stock Exchange since 1999. Subsequently, the Code was revised many times. Since the 2011 revision of the Corporate Governance Code, maximum attention has been paid to risk with a specific appendix to discuss the importance of risk management information. The review proposes the creation of an integrated internal control and risk management system (Borsa Italiana, 2011; Article 7.C.1.a). Internal Control and Risk Management must be integrated and treated as a unitary system focused on risks, and integrated within the overall organizational, administrative, and accounting system of the company (Florio and Leoni, 2017). This is followed by the commitment of the board of directors to make public, in the report on corporate governance, “the main characteristics of the internal control and risk management system and the methods of coordination between the subjects involved in it, expressing its assessment of its adequacy” (Borsa Italiana, 2011; art. 7.C.1.d). The obligation, in line with Directive 2006/46/EC, to describe risk management systems requires a description of the risk management functions, policies, structures, and procedures. Furthermore, in 2015 the Risk Management functions were partially strengthened (Panfilo, 2020). In particular, the obligation was introduced to «clearly indicate in the report on corporate governance the coordination between the persons and bodies responsible for the internal control and risk management system» (Borsa Italiana, 2015; art. 7. C.1 letter. D). The Code is based on the “comply or explain” principle according to which listed companies can decide whether to adopt it. Accordingly, Italian listed companies already have in place some form of ERM for many years.

When COVID-19 spread outside China’s boundaries, Italy was the first country mostly hit by it immediately after. “In March 2020, Italy has already significantly more deaths than in the previous years. It is the first country to reach a peak: 187 % in week 13 (23-29 March)”<sup>1</sup> reaching a peak of

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<sup>1</sup> [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Weekly\\_death\\_statistics&stable](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Weekly_death_statistics&stable)

23,457 death in a week (Eurostat, 2021). In the last week of February (week 9), the area of Lodi, in the North of Italy, has more than twice the number of deaths than in the same week of the previous four years. Week 10 sees the Italian nearby regions of Bergamo and Cremona joining Lodi (all in Lombardy) in recording extremely high deaths. Week 11 (9-15 March) shows the group of heavily affected Italian northern regions growing to include Piacenza, Parma, and Brescia. The Italian regions mentioned (and Lecco and Pesaro-Urbino, too) remain affected by a high number of deaths in week 12.

**[Insert Figure 1 near here]**

Since the beginning of the COVID-19 crisis, the European Securities and Markets Authorities (ESMA) together with National Competent Authorities, were closely monitoring the situation in view of the continuing impact of the COVID-19 outbreak on financial markets in the European Union (EU). On 11<sup>th</sup> March 2020, following a Board of Supervisors discussion examining the market situation and contingency measures taken by supervised entities, ESMA made some recommendations to financial market participants especially concerning communication. First, with regard to Market disclosure, “issuers should disclose as soon as possible any relevant significant information concerning the impacts of COVID-19 on their fundamentals, prospects or financial situation in accordance with their transparency obligations under the Market Abuse Regulation”. Second, with regard to Financial Reporting “issuers should provide transparency on the actual and potential impacts of COVID-19, to the extent possible based on both a qualitative and quantitative assessment on their business activities, financial situation and economic performance in their 2019 year-end financial report if these have not yet been finalized or otherwise in their interim financial reporting disclosures”<sup>2</sup>.

Relying on ESMA public statements, the Italian National Market Authority (CONSOB) at the beginning of April claimed: “in addition to what is required by

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<sup>2</sup> <https://www.esma.europa.eu/press-news/esma-news/esma-recommends-action-financial-market-participants-covid-19-impact>

international accounting standards, in the current context the information required by the management report prepared by the directors accompanying the financial statements may be relevant. In this regard, where relevant, the attention of issuers is drawn to provide updated information:

- (i) on the risks associated with COVID-19 that may have an impact on the economic, equity, and financial situation;
- (ii) on any measures undertaken or planned to mitigate these risks as well as;
- (iii) a qualitative and/or quantitative indication of the potential impacts that have been considered for estimating the future performance of the company” (CONSOB, 2020 p.2 ).

In particular, the “Risk Factors” section of the prospectus must be updated to take into account the possible impacts deriving from the COVID-19 pandemic. The risks presented must be significant, specific, and corroborated by the information contained in the prospectus, in accordance with the provisions of the Prospectus Regulation and the relevant ESMA Guidelines (CONSOB, 2020 p.3).

## **4 Research Design**

Because of Italian peculiar characteristics, described in detail in the prior paragraph, the Italian listed companies represent a material setting for investigating whether in an uncertain environment a higher or lower level of ERM sophistication influences companies’ choice of communication content and how. More specifically, we focus on the FTSE MIB listed companies set which represents 80% of Italian stock exchange market capitalization.

The first step of the research design is the corporate reporting collection. Specifically, we collected for all the sample companies the corporate governance reports for the year 2018, and annual reports for the period 2019; further, when available, the intermediate management commentary referring to the first quarter of 2020. Since corporate governance reports were employed for assessing the degree of ERM sophistication of companies before the pandemic outbreak, we used corporate governance

reports of the year 2018. Instead, since annual and intermediate reports were used for identifying the different COVID-19 crisis response strategies adopted by companies, we examined the annual reports of 2019 and intermediate reports of the first quarter of 2020. In this regard, it is worth remembering that not only intermediate reports of the first quarter of 2020 but also 2019 annual reports, were drawn up in the first months of 2020 when the COVID-19 was beginning to occur. We consider of particular interest the time reference of these corporate reports because they allow us to study the first crisis communication strategies adopted by companies when the level of uncertainty due to COVID-19 was the highest.

The second step is the analysis of the 2018 Corporate Governance reports by employing Florio and Leoni's (2017) framework to assess the level of ERM sophistication already in place before the COVID-19 event. To do that, we perform a manual content analysis (Krippendorff, 2004) on such reports to measure the ERM implementation degree. ERM sophistication score (ERM\_Score) includes six binary variables representing the ERM components, and it ranges between 0 and 6. More specifically, "three variables represent risk management integration into corporate governance and measure whether the company has an Internal control risk officer or a Chief Risk Officer, whether it has a risk committee and the reporting frequency between risk committee and the board of directors. Other three variables represent the characteristics of the risk assessment procedure: the frequency of the assessment, the depth of the procedure regarding the overall company or single business units, and the methodology for the assessment, which can be qualitative only or also quantitative" (Florio and Leoni, 2017, p. 7).

Once we compute the ERM\_Score for all FTSE-MIB companies in 2018, we focus on two opposite subsets of companies according to their degree of ERM sophistication. In particular, we compare top\_ERM cases, i.e. those companies with an ERM\_Score greater or equal than 5, with bottom\_ERM cases, i.e. those companies having an ERM\_Score lower or equal to 2 (see Figure 2). To obtain a homogenous distribution of the case studies in both sets we considered: all the bottom\_ERM (9) to be compared with an equal number of top\_ERM organizations. To select this latter, we include

all the companies with an ERM\_Score equal to 6 (3 companies) and we randomly select the remaining companies (6) among those with an ERM\_Score equal to 5.

**[Insert Figure 2 near here]**

We performed a thematic analysis (Auerbach and Silverstein, 2003) on COVID in both the 2019 annual report and intermediate management commentary for the first quarter of 2020. A general reading, followed by a detailed one, of all retrievable reports, was independently undertaken by all the authors. We structurally coded segments of text (sentences or group of sentences) discussing COVID-19 relying on Coombs's (2007) framework of analysis (see Table 1) to identify the different crisis response strategies adopted by the companies. Specifically, the authors coded as 1 the segments of the text where "there is a case of attribution of responsibility" (Lauran et al., 2020, p. 1265) and in turn to a specific strategy and 0 otherwise, except for those segments of text referring simultaneously to two crisis response strategies. In this latter case, the text is coded as 0.5 (half point to each communication strategy). The authors then reviewed each other's coding and there were very few cases of disagreement.

The final step focuses on the identification of communication strategies' patterns depending on the degree of ERM sophistication. This allows verifying if and how risk management, in place before a crisis, shapes the crisis response strategy adopted by the companies to protect reputation.

## **5 Findings**

Tables 2 and 3 present the overall findings resulting from the analysis of annual reports 2019 and intermediate management commentary reports (first quarter 2020), respectively. These tables show the number of segments of text regarding COVID-19 attributed to different crisis response strategies.

Relying on Coombs' (2007) framework the current pandemic crisis can be attributed to the victim cluster type. According to Coombs (2007), organizations involved in such a kind of crisis tend to adopt a denial communication strategy. Deny strategies attempt to remove any connection between

the organization and the crisis. These strategies are recommended when the organization is also a victim of the crisis and has very weak attributions of crisis responsibility. However, our findings show that only companies with a low level of ERM sophistication adopt “denying” crisis response strategies. In contrast, companies with a high level of ERM sophistication partially use “rebuilding” crisis response strategies. Whereas, both sets of companies adopt “diminish” strategies but different from each other.

In detail, the most used crisis communication strategies by companies with low ERM sophistication are “scapegoat” (20% in annual reports and 24% in interim reports) and “excuse” (52% in annual reports and 42% in interim reports). On the contrary, companies with high ERM sophistication adopt mainly the following primary crisis response strategies: “justification” (40% in annual reports and 39% in interim reports) and “compensation” (13% in annual reports and 23% in interim reports). Further, they also make more use of a secondary “reminder” strategy (32% in annual reports and 19% in interim reports).

Meaningful examples of “scapegoat” communication strategy are reported, for instance, in the Tenaris annual report 2019. The extract indeed highlights how the company identifies in the no agreement among OPEC members the cause of the collapse in the oil price which then led to oversupply and fall in oil consumption, which in turn is going to affect the company’s performances:

*“While the extent of the effects of COVID-19 on the global economy and oil demand was still unclear, in March 2020, the members of OPEC+ (OPEC plus other major oil producers including Russia) did not agree to extend their agreement to cut oil production and Saudi Arabia precipitated a wave of additional supply on the market triggering a collapse in oil prices below \$30 per barrel. This exacerbated what soon became clear was an unprecedented situation of oversupply, caused primarily by the sudden and dramatic fall in oil consumption consequent to the measures taken to contain the spread of the virus around the world” (p. 61).*

**[Insert Table 2 near here]**

**[Insert Table 3 near here]**



Another example of the “scapegoat” response strategy can be found in the 2020 FCA interim report. This company, in the immediate after pandemic outbreak period, indicates how governments took extraordinary actions which stop movements and that are expected to affect their performances:

*“The emergence of the COVID-19 pandemic has caused governments in affected jurisdictions worldwide to take extraordinary actions, including imposing travel bans, quarantines, shelter-in-place orders, bans on public gatherings, restrictions on economic activities, and other emergency public safety measures. These measures, though expected to be temporary, will adversely affect our business, results of operations and financial condition” (p. 29).*

The Ferrari interim report 2020, instead, provides a good example of “excuse” communication strategy declaring that its operations and financial results are not under the control of the company but are depending on future developments in the pandemic:

*“The future impacts of the COVID-19 pandemic on our results of operations and financial condition will depend on ongoing developments in the pandemic, including the success of containment measures and other actions taken by governments around the world, as well as the overall condition and outlook of the global economy” (p. 26).*

In the Telecom Italia interim report for the first quarter of 2020, there is another example of “excuse” communication strategy. In the following extract this company states clearly that the health emergency due to the coronavirus is a factor beyond its control which could affect its business:

*“Moreover, the business outlook for 2020 could be affected by risks and uncertainties caused by a multitude of factors, the majority of which are beyond the Group's control. In this context, we must highlight the health emergency due to the recent spread of the COVID-19 virus, qualified as a pandemic by the World Health Organization (WHO)” (p. 16).*

The examples provided above show entities with low ERM sophistication are likely to be less prepared to face unexpected negative events and thus seem to implement a defensive and passive communication strategy using a “deny/diminish” approach. These entities try to underline that the origin

of the crisis is external and they have weak responsibility for it, by blaming someone or something else for it (scapegoat) or claiming inability to control the events that triggered it (excuse).

Conversely, companies with a more sophisticated ERM are likely to be more ready to face unexpected negative events and consistently apply a proactive communication strategy using a “diminish/rebuild” approach. These firms attempt to convey to stakeholders reassuring messages and take charge of the consequences of the crisis, without limiting to deny any responsibility.

These organizations try to minimize the perceived damage caused by the crisis (justification), as reported in Terna’s annual report 2019:

*“The economic impact of the COVID-19 emergency on the Terna Group’s business is currently being assessed. However, we do not expect to see significant direct effects, given the largely regulated nature of our business...”* (p. 238).

Similarly, Leonardo Group underlines in its first-quarter 2020 interim report that its business performance has not been yet impacted negatively by the crisis sending reassuring messages to its stakeholders:

*“Note that the first quarter registered an excellent commercial performance, not yet affected by the crisis due to COVID-19, confirming the good positioning of the Group’s products and solutions in the relevant markets”* (p. 4).

They also express concern and regret to both direct and indirect victims of the crisis and especially offer them material or symbolic forms of aid (compensation). UBI Banca’s interim financial report for the first quarter of 2020 contains a valid reference to this communication strategy referring to the amount of the donations provided by the bank and to the voluntary fundraising and solidarity initiatives created:

*“Together with the donation of €5 million to health and welfare institutions, the Bank also organized a voluntary fundraising initiative for the fight against Coronavirus aimed at all Group staff, entitled UBI gift, a day for solidarity” (p. 26).*

In other cases, the adoption of a crisis response strategy called “compensation” is more focused on specific stakeholders, such as customers or employees. For example, the Hera Group highlights in its interim financial report for the first quarter 2020 some benefits aimed to customers affected negatively by the restrictions due to the COVID-19, as reported in the following extract:

*“The Group had, in any case, decided to take steps in advance, giving the possibility of paying by installments to all customers dependent on unemployment insurance, those benefitting from income support measures and owners of businesses closed due to national or local rulings” (p. 5).*

Instead, in Terna’s interim financial report for the first quarter of 2020, the company points out that the health of all its personnel is one of Terna’s immediate priorities by offering an insurance cover for all its employees:

*“Terna has also obtained specific COVID-19 insurance cover for all our personnel” (p. 3).*

Finally, these companies with a higher ERM degree remind stakeholders of the good work of the organization since the outbreak of the pandemic (reminder) to bolster the crisis response strategy. Italgas’ annual report 2019 offers a good example of this kind of reminder communication. The extract indeed highlights the actions put in place by the company just after the pandemic event:

*“The Company, already in the hours immediately following the first cases, set up a Crisis Committee which, in the light of the provisions and indications of the competent Authorities, constantly monitors the evolution of the emergency and adopts the appropriate measures while ensuring continuity and the efficiency of essential and necessary services, with particular regard to emergency services” (p. 272).*

Also, A2A annual report 2019 provides a valid example of reminder communication, emphasizing its ability to undertake actions fit to protect all those interacting with it, as reported in the following extract:

*“With regards to the emergency status currently impacting Italy as a result of the spread of the COVID-19 virus and consequent measures adopted by the competent government bodies, the A2A Group, which is constantly monitoring the evolution of the situation, has implemented measures currently necessary, to guarantee business continuity and operation, as well as protecting its employees, customers and suppliers and all those otherwise called to interact with the various Group companies” (p. 102).*

In this way, this second group of companies with higher ERM sophistication tries to maintain good relationships with stakeholders recalling their proactive role during the crisis.

## **6 Discussion and Conclusions**

This paper shows that ERM sophistication (a firm-specific characteristic) played a significant role in shaping COVID-19 crisis communication strategies. More specifically, companies with a low level of ERM sophistication (reactive) adopt a crisis communication strategy based on “denying/diminish” (scapegoat/excuse), while companies with higher ERM sophistication (proactive) adopt a “diminish/rebuild” situational crisis communication (justification/compensation).

The results are consistent with the idea that the risk culture of an organization influences the cost of collecting information about risks and the willingness to disclose such information. Companies with sophisticated ERM have more easily accessible information and are more used to thinking about unforeseen events (such as COVID-19) in terms of identification and mitigation. As a consequence, their risk communication will lean towards more accommodative approaches. Conversely, low ERM sophistication companies are less used to thinking about risk identification and mitigation and therefore, given an uncertain event such as COVID-19, are less willing to adopt accommodative approaches

instead. Figure 3 displays the SCCT crisis communication strategies, SCCT predictions, and the approaches adopted by companies with high/low ERM sophistication in the COVID-19 context.

**[Insert Figure 3 near here]**

Previous SCCT research suggests that in the case of a victim cluster type of crisis, the best strategy for companies would be the “denial” communication. SCCT would also predict that, given the shared nature of the crisis, there should be no differences in crisis communication.

Only recently, Luran et al. (2020) show that “with regard to the communication strategy decision, deciding upon one actor and one (homogeneous) stakeholder group is not the right strategy. There are several actors active in a crisis who all frame the crisis in a different manner” (p.1275). According to a different perspective, our study further extends the scope of SCCT showing also firm-specific characteristics may have a role in shaping the corporate crisis communication strategy.

First, our results challenge both SCCT predictions, consistently with the idea that COVID-19 has some peculiar characteristics compared to the standard typology of crisis analyzed by SCCT (it is an exogenous and generalized event). Supporting Guthrie et al. (2020) call for research on the *way* in which risk communication is provided, the study contributes to the SCCT, as it empirically shows that its predictions do not hold in the COVID-19 context and it suggests that firm-specific characteristics (such as ERM sophistication) do matter.

Second, in a first attempt to answer the call by Pagach and Wieczorek-Kosmala (2020), the study contributes to the field of studies on ERM providing insights into how ERM can be even more effective in a post-COVID-19 environment. The study supports Oliveira et al. (2019) showing that risk culture is a critical success factor of ERM implementation and it matters not only in terms of performance or capital markets (Baxter et al., 2013; Gordon, et al., 2009; Pagach and Warr, 2011) but also in the risk communication process. More specifically, our paper investigates the role that ERM plays in communicating the COVID-19 risk information to stakeholders, especially stockholders,

through corporate reporting. This disclosure is crucial to help users discern the impact that risks and developments related to the COVID-19 pandemic may have on the company and its business, financial condition, and results of operations. The study, therefore, contributes to the literature on risk communication also recognizing that different degrees exist (for all Balog-Way et al., 2020) - here intended in terms of different communication strategies adopted. Furthermore, the study extends the tools for (re)building trust (e.g. Way, 2017) through the identification of a specific company characteristic, i.e. higher (lower) ERM sophistication, that in a regulated context - such as Italian stock exchange - influences a higher (lower) accommodative approach in a crisis context.

These results have also practical implications, as companies willing to protect their reputation and (re)building trust because of a crisis should invest not only in risk communication to increase transparency but also in their risk management process. This in turn may lead to policy implications empirically demonstrating how, despite a context where risk management processes and risk communication are already quite regulated, uncertainty communication is driven by a different company's risk culture. Policy-makers may therefore have a role in pushing a greater emphasis on risk culture increasing incentives for companies with a more developed risk management and communication process.

Future (SCCT) studies may want to combine crisis and other firm-specific characteristics to study the best communication approach to be employed. Moreover, future studies may investigate whether the variance in crisis response strategies based on the rebuilding approach may be linked to the so-called "ethics of narcissus" (Benoit, 1995; Bebbington et al., 2008). According to this view, such crisis communication discourses could be aimed more at "the self" rather than at "the outside". Companies with a high degree of ERM could meet narcissistic desires of perceiving one's self as "good", telling how good they are at dealing with the COVID-19 crisis.

Additionally, further research may identify SCCT boundaries and the conditions under which the theory can deliver reliable predictions. Finally, relying on the other limitations of the current research, future studies may explore the role of industry-level characteristics in crisis communication, also adopting a cross-country comparison, and may also analyze stakeholders' perception of different

risk communication strategies adopted by companies through different channels (e.g. social, corporate reporting, website, etc.).

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**Table 1. Situational Crisis Communication Strategies**

<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Increasing level of accommodative approach</p> 	<p><b>Primary crisis response strategies</b></p>
	<p><b>Deny crisis response strategies:</b></p> <p><i>a. Attack the accuser:</i> Crisis manager confronts the person or group claiming something is wrong with the organization.</p> <p><i>b. Denial:</i> Crisis manager asserts that there is no crisis.</p> <p><i>c. Scapegoat:</i> Crisis manager blames some person or group outside of the organization for the crisis.</p>
	<p><b>Diminish crisis response strategies:</b></p> <p><i>a. Excuse:</i> Crisis manager minimizes organizational responsibility by denying intent to harm and/or claiming inability to control the events that triggered the crisis.</p> <p><i>b. Justification:</i> Crisis manager minimizes the perceived damage caused by the crisis.</p>
	<p><b>Rebuild crisis response strategies:</b></p> <p><i>a. Compensation:</i> Crisis manager offers money or other gifts to victims.</p> <p><i>b. Apology:</i> Crisis manager indicates the organization takes full responsibility for the crisis and asks stakeholders for forgiveness.</p>
	<p><b><i>Secondary crisis response strategies - Bolstering crisis response strategies</i></b></p>
	<p><i>a. Reminder:</i> Tell stakeholders about the past good works of the organization.</p> <p><i>b. Ingratiation:</i> Crisis manager praises stakeholders and/or reminds them of past good works by the organization.</p> <p><i>c. Victimage:</i> Crisis managers remind stakeholders that the organization is a victim of the crisis too.</p>

Adaptation from Coombs (2007). Protecting Organization Reputations During a Crisis: The Development and Application of Situational Crisis Communication Theory. *Corporate Reputation Review*, 10 (3), p. 170.

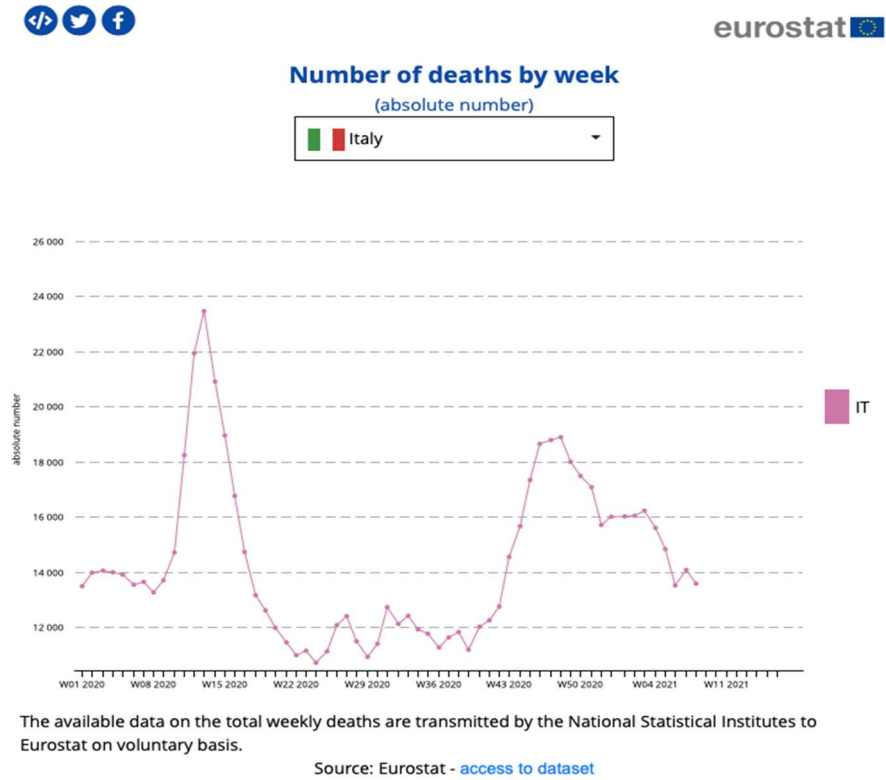
**Table 2. Overall Findings from Annual Reports 2019**

		Communication strategy										
		Primary response						Secondary response				Total
		Denial			Diminish		Rebuild		Reminder	Ingratiation	Victimage	
		Attack the accuser	Denial	Scapegoat	Excuse	Justification	Compensation	Apologize				
<b>Top ERM Entities</b>	<b>0</b>	<b>0</b>	<b>2</b>	<b>4</b>	<b>18</b>	<b>6</b>	<b>0</b>	<b>14.5</b>	<b>0.5</b>	<b>0</b>	<b>45</b>	
	<b>0%</b>	<b>0%</b>	<b>4%</b>	<b>9%</b>	<b>40%</b>	<b>13%</b>	<b>0%</b>	<b>32%</b>	<b>1%</b>	<b>0%</b>	<b>100%</b>	
<b>Bottom ERM Entities</b>	<b>0</b>	<b>0</b>	<b>4.5</b>	<b>11.5</b>	<b>3</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>1</b>	<b>22</b>	
	<b>0%</b>	<b>0%</b>	<b>20%</b>	<b>52%</b>	<b>14%</b>	<b>5%</b>	<b>0%</b>	<b>0%</b>	<b>5%</b>	<b>5%</b>	<b>100%</b>	

**Table 3. Overall Findings from Intermediate Management Commentary Reports (First Quarter 2020)**

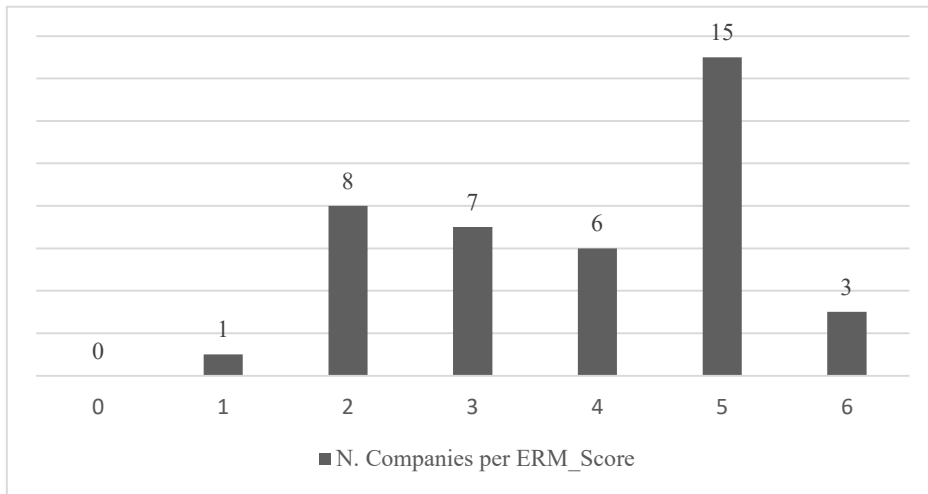
		Communication strategy										
		Primary response						Secondary response				Total
		Denial		Diminish		Rebuild		Reminder	Ingratiation	Victimage		
		Attack the accuser	Denial	Scapegoat	Excuse	Justification	Compensation				Apologize	
<b>Top ERM Entities</b>		<b>0</b>	<b>0</b>	<b>1</b>	<b>9</b>	<b>22</b>	<b>13</b>	<b>0</b>	<b>11</b>	<b>1</b>	<b>0</b>	<b>57</b>
		<b>0%</b>	<b>0%</b>	<b>2%</b>	<b>16%</b>	<b>39%</b>	<b>23%</b>	<b>0%</b>	<b>19%</b>	<b>2%</b>	<b>0%</b>	<b>100%</b>
<b>Bottom ERM Entities</b>		<b>0</b>	<b>0</b>	<b>16</b>	<b>27.5</b>	<b>7.5</b>	<b>5</b>	<b>0</b>	<b>9</b>	<b>1</b>	<b>0</b>	<b>66</b>
		<b>0%</b>	<b>0%</b>	<b>24%</b>	<b>42%</b>	<b>11%</b>	<b>8%</b>	<b>0%</b>	<b>14%</b>	<b>2%</b>	<b>0%</b>	<b>100%</b>

Figure 1. Number of Deaths by Week in Italy from Week 1 2020 to Week 11 2021






**Figure 2. FTSE-MIB Companies' ERM\_Score Prior to COVID-19 Crisis**



**Figure 3. Crisis Communication Strategies During COVID-19: SCCT Prediction and the Role of ERM Sophistication**

	Crisis communication strategy							
	Primary response							
	Denial			Diminish		Rebuild		
	Attack the accuser	Denial	Scapegoat	Excuse	Justification	Compensation	Apologize	
SCCT prediction								
High ERM sophistication								
Low ERM sophistication								


  
 Increasing accommodative approach



