

Accounting for Coronavirus Risk

By Michael Kraten, EconVue Expert (www.econvue.com) 4/5/2020

As Queen Elizabeth makes her emergency address to the British people from her safe zone in Windsor Castle, and as the U.S. Surgeon General Jerome Adams warns the American people of an impending “Pearl Harbor Moment,” is it reasonable to ask why governments and businesses were caught blindsided by the coronavirus catastrophe?

Perhaps it’s unfair to expect foresight in the face of such a menace. But why weren’t health care providers and other organizations prepared to respond promptly? Why the shortages of such basic items as face masks and nasal swabs? Where was the contingency plan to increase production of such essentials at a time of dire need?

If we review the reporting standards of the Global Reporting Institute (GRI), we can find disclosure requirements that address these readiness considerations. GRI Standard 204 on Procurement Practices, for instance, states that:

“When reporting its management approach for procurement practices, the reporting organization can ... describe actions taken to identify and adjust the organization’s procurement practices that cause or contribute to negative impacts in the supply chain ... (these) can include stability or length of relationships with suppliers, lead times, ordering and payment routines, purchasing prices, changing or cancelling orders.”

Consider the many health care providers that rely on unstable Asian suppliers to provide face masks under terms that permit long lead times, uncertain ordering routines, and the imposition of extreme price increases when products are scarce. If they are required to disclose these procurement relationships under GRI Standard 204, we would be aware of the resulting social risk.

Likewise, GRI Standard 403 on Occupational Health and Safety states that:

“The reporting organization shall report ... whether the (occupational health and safety management) system has been implemented based on recognized risk management and/or management system standards / guidelines and, if so, a list of the standard guidelines.”

Consider the employees of our food and delivery companies who are now protesting that their employers are not providing satisfactory protections against the coronavirus. If the employers are required to disclose the standards and systems that they utilize to keep their employees healthy and safe, we would be aware of the extent of their preparedness (or lack thereof) in the face of pandemic threat.

There are other GRI Standards that come close to addressing pandemic concerns, but that fall just short of the mark. GRI Standard 201 on Economic Performance, for instance, states that:

“The reporting organization shall report ... risks and opportunities posed by climate change that have the potential to generate substantive changes in operations, revenue, or expenditure, including a description of the risk ... a description of the impact associated with the risk ... the financial implications of the risk ... the methods used to manage the risk ... (and) the costs of actions taken to manage the risk.”

Although Standard 201 refers to climate change, it would represent an ideal disclosure requirement for pandemic preparedness if the GRI simply adds the words “and pandemics” to “climate change.”

It may be comforting to know that disclosure defining entities like the GRI have issued standards that address our readiness to fight the current pandemic. But we cannot reap the benefits of these disclosure requirements if organizations simply ignore their reporting responsibilities.