

Book Review

edited by Roberto Di Pietra and Stefano Zambon

The Boundaries in Financial and Non-Financial Reporting – A Comparative Analysis of their Constitutive Role

Laura Girella, London: Routledge, “Routledge Focus in Accounting and Auditing”, 2018, 116 pp., £ 45.

by Charles Mario Abela*

The topic of boundaries is gaining momentum across many disciplines such as accounting, business and sociological disciplines. It is increasingly understood that boundaries are much more than signposts of the end or the beginning of an area or a territory. Boundaries have a two-way relationship with the object to which they refer. They are more than a “line”: they contribute to defining and shaping the object, and in turn the object “uses” them to make its presence visible also at a conceptual level. Indeed, the way in which boundaries are created, modified and dissolved, is constitutive of identities and, more generally, of human communities in geographical, political, economic and social terms, marking with their existence the differences and peculiarities with the “other”.

Given their multifaceted nature, boundaries have featured prominently in constructing also accounting and reporting objects and, ultimately, realities. They define for organisations and the actors that surround their activities, what ‘counts’ in terms of economic performance and financial solvency. Put differently, boundaries are drawn to provide the cartography of personal, managerial, economic and political perspectives towards value creation. However, it is well recognised that boundaries in accounting and reporting are far from being a simple reflection of a *de facto* reality. The accounting/reporting object is delimited and “made” by its boundaries, which have then a fundamentally “creative” role in the external accountability procedures of an organisation. As an example, until the ‘80s the consolidated accounts of German groups had a scope that ended with and corresponded to the geographical boundaries of Germany, thus limiting the consolidated subsidiaries, figures and information to the German-based operations.

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The seminal book *The Boundaries in Financial and Non-Financial Reporting – A Comparative Analysis of their Constitutive Role* by Laura Girella is probably to date the first work that addresses this theme in a comprehensive and holistic way by considering boundaries from both a financial and a non-financial reporting viewpoint. Scholars have typically dealt with each perspective in isolation when considering the nature and implications of boundaries for reporting. In addition, most of them have not provided the reader with a theoretical framework able to accommodate, and therefore highlight, the nuances that characterise the two perspectives and their respective distinctive characteristics. Furthermore, the work not only reviews the extant frameworks and standards in the light of boundary setting, but also it presents their applications and implications for professionals.

The book is structured in five chapters. Chapter 1 introduces the rationale of the work and describes the methodology and the theoretical context in which it is located. In this respect, the concept of ‘transplantation’ is used to illustrate the manners in which boundaries are set in the non-financial arena, namely by adopting a very similar approach to the one used in the financial reporting realm. Two schemes to help the reader visualising the complex reality of this topic are also offered.

Chapter 2 is dedicated to financial reporting and especially, the significance that boundaries assume in defining what is a reporting entity. It reviews the ways in which reporting boundaries have been defined with reference to financial (both company and group) reporting, outlining the fundamental theories that underlie the different approaches, the views put forth by the key standard setters, namely the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) on consolidation and on the principal technical and measurement implications that derive from them, such as the treatment of special purpose entities and of non-controlling (minority) interests.

Chapter 3 is devoted to non-financial reporting. The ways in which boundaries have been addressed in this arena is discussed by means of an investigation of the main standards and frameworks developed in the ‘sustainability’ and ‘value creation’. In particular, the Guidelines and Standards issued by the Global Reporting Initiative (GRI), the Framework developed by the Climate Disclosure Standards Board (CDSB), the Greenhouse Gas (GHG) Protocol, the Framework and Standards released by the Sustainability Accounting Standards Board (SASB), the Accounting for Sustainability

(A4S) Guidelines on Social and Human Capital Accounting, and the recently released Recommendations by the Task Force on Climate-related Financial Disclosure, focus on sustainability.

Whereas the World Intellectual Capital Initiative (WICI) Intangibles Reporting Framework, and the International <IR> Framework released by the International Integrated Reporting Council (IIRC) address value creation.

For each of these frameworks, a brief history of the major developments in identification and the processes followed to determine boundaries is traced, considered through the voice of the main actors involved in the preparation of these documents.

Chapter 4 offers a view on the practical implications deriving from the adoption of the frameworks and standards previously examined. In analysing company cases in the shift from sustainability to integrated reports and from annual to integrated report different attitudes have emerged. This is also the case of where SDGs have started to be included in the integrated report. Also in this Chapter, the major opportunities and challenges faced by organisations in boundaries' setting are investigated through interviews with companies' representatives. The Chapter then examined two themes that are particularly sensitive for professionals in their assessment of reporting boundaries. These are the 'reporting entity' and 'materiality'.

Finally, Chapter 5 summarises some initial observations yielded by the comparison between the ways reporting boundaries have been identified and defined in the financial and non-financial reporting arenas. These observations are then reconducted to the conceptual schemes that introduce the work. It is found that financial and non-financial reporting are different in nature and therefore, the transplantation that the concept and processes of boundaries' setting has had from the former to the latter implies several criticalities and challenges. The ways in which boundaries are set in financial reporting are still highly ambiguous. Hence, the pure reliance on these mechanisms by the non-financial reporting frameworks are at risk of becoming 'a colossus based on shaky foundations'.

The analysis and approach set out in this book provides a sophisticated problematising of the boundaries employed in reporting and the fact that they are often unquestioned assumptions by scholars. Overall, the book makes for very interesting reading, re-opening up and addressing an influential subject area that has been largely overlooked by researchers and practitioners. The joint consideration of financial and non-financial reporting, the unitary theoretical framework, and the attention paid also to professionals' views and voice are qualifying and innovative points of this work.

Dr Girella makes it clear that such boundaries are not innocuous, and their effects spill over into broader social, economic and political implications for society.