

# ROLE OF FINANCIAL NARRATIVES DURING CORPORATE RESTRUCTURING PROCESS

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## Abstract

*In the ever-evolving realm of modern business, companies frequently find themselves confronting financial distress and instability. Amidst the complexity of this multifaceted process, one often underestimated yet exceptionally influential tool emerges—the financial narrative. It is far more than an assemblage of financial figures, statements, and reports; it represents a strategic communication mechanism that conveys a company's narrative, vision, and strategy for recovery to its diverse stakeholders. The relevance of clear and effective communication through financial narratives is more pronounced during restructuring, where complexities and uncertainties are prevalent. This research paper examines the critical role of financial narratives in the process of company restructuring, offering an in-depth analysis from the perspective of chartered accountants. This paper adopts a mixed-methods approach, combining qualitative insights derived from questionnaires and interviews with chartered accountants, and a quantitative examination of financial reports.*

*The Key findings reveal that financial narratives play a pivotal role in enhancing stakeholder understanding, guiding strategic decisions, and adhering to compliance requirements. The conclusions drawn from this research provide valuable insights for practitioners, policymakers, and academicians in the fields of corporate finance and restructuring. This paper not only contributes to existing literature but also proposes practical recommendations for optimizing the use of financial narratives in restructuring scenarios.*

**Keywords:** Financial narrative, corporate restructuring process

## 1.1 INTRODUCTION

A financial narrative is a written or verbal account that provides a detailed description and explanation of an entity's financial situation. This narrative is often used to complement financial statements and reports, providing context, analysis, and insights into the financial performance and position of an organization. In the intricate landscape of corporate restructuring, the role of financial narratives becomes pivotal, guiding stakeholders through the complexities of change. As companies navigate the challenges of financial turmoil, the effectiveness of these narratives in conveying transparent, accurate, and compelling information becomes paramount. Well-crafted financial narratives play a crucial role in shaping perceptions, instilling confidence among investors, and fostering understanding during the corporate restructuring process. Understanding this role is essential for companies seeking to navigate turbulent financial waters while maintaining stakeholders' trust and confidence.

## 1.2 OBJECTIVES OF THE STUDY

- To understand the concept of financial narratives.
- To explore the impact of financial narratives on stakeholder perception.
- To assess the role of financial narratives in decision-making.

## 1.3 REVIEW OF LITERATURE

**Johnson and Tuckett (2021)**, in their research article "*Narrative expectations in financial forecasting*" discussed the prospects for a narrative theory of choice that provide new micro foundational insights about economic behavior.

**Martens, Jennings and Jennings (2007)** in their paper titled "*Do the stories They tell get them the Money They Ned? The Role of Entrepreneurial Narratives in Resource Acquisition*" examined the effects of storytelling on a firm's ability to secure capital. They conclude that narratives help leverage resources by

conveying a comprehensible identity for an entrepreneurial firm elaborating the logic behind exploiting the opportunities and embedding entrepreneurial endeavour within broader discourses.

**Aren and Dumanli (2019)**, in their paper titled *“Role of narratives in Financial Decision making from perspective of Emotional Finance”* discussed that narratives are important building blocks of emotional finance. It plays critical role in enabling individuals who must make decisions under uncertainty to imagine the future to act.

#### 1.4 RESEARCH METHODOLOGY

The researcher has undergone comprehensive literature review to understand existing theories and practices. Quantitative analysis was used to assess financial data, while qualitative analysis will be done by delving into annual reports, press releases, and management discussions. Case studies of companies undergoing reconstruction was examined, and primary data was collected from Investors to gather a holistic understanding of the impact and effectiveness of financial narratives in shaping stakeholder perceptions and influencing decision-making during corporate restructuring.

#### 1.5 HYPOTHESIS OF STUDY

##### **Hypothesis no 1:**

(H0): There is no significant relationship between the quality of financial narratives during company restructuring and stakeholders' understanding of the organizational changes.

(H1): The quality of financial narratives during company restructuring has a significant positive relationship with stakeholders' understanding of the organizational changes.

##### **Hypothesis no. 2:**

(H0): The effectiveness of financial narratives does not significantly impact decision-making processes during company restructuring.

(H1): The effectiveness of financial narratives significantly influences decision-making processes during company restructuring.

#### 1.6 CASE STUDIES

Here are some examples of how companies have used financial narratives to support their restructuring efforts:

##### **1. Hertz (2021): From Bankruptcy to "Electrically Charged Reinvention"**

Faced with pandemic losses, Hertz filed for bankruptcy in 2020. Their narrative shifted from a traditional car rental company to one focused on electric vehicles (EVs). By highlighting investments in EV fleet expansion and partnerships with Tesla, Hertz positioned itself as a leader in the rapidly growing EV market, attracting new investors and securing a successful exit from bankruptcy.

##### **2. Peloton (2022): Navigating Demand Slowdown through "Transformational Strategy"**

After pandemic-fueled growth, Peloton faced a demand slowdown in 2022. Their narrative transitioned from rapid expansion to operational agility and cost control. They emphasized investments in digital fitness subscriptions, partnerships with retailers, and streamlining manufacturing, showcasing a focus on long-term profitability and adapting to changing market conditions.

##### **3. Beyond Meat (2023): Overcoming Supply Chain Challenges with "Resilience and Expansion"**

Beyond Meat encountered supply chain disruptions and increased competition in 2023. Their narrative emphasized building domestic production capacity, diversifying product offerings, and entering new markets. This showcased resilience in the face of industry challenges and long-term commitment to plant-based protein innovation.

##### **4. Warner Bros. Discovery (2022): Merging Giants into a "Global Streaming Powerhouse"**

The merger of Warner Bros. and Discovery in 2022 aimed to create a major player in the streaming wars. Their narrative focused on synergistic content libraries, international reach, and direct-to-consumer (DTC) platform building. This highlighted the combined strength of entertainment giants and positioned the company for future growth in the streaming landscape.

##### **5. Bed Bath & Beyond (2023): Revamping for "Sustainable Growth and Value Creation"**

Bed Bath & Beyond struggled with declining sales and operational inefficiencies in 2023. Their narrative emphasized Omni channel expansion, private label brands, and cost-cutting measures. This presented a plan for turnaround through improved customer experience, product differentiation, and financial discipline.

##### **6. General Motors (2009) "Driving Excellence- Paving the Way for Automotive Innovation"**

During its 2009 bankruptcy, General Motors used a narrative of "reinvention" to explain its restructuring plan. The company emphasized its commitment to emerging technologies and green cars, which helped to win over investors and the public.

7. **American Airlines:** When American Airlines filed for bankruptcy in 2011, it used a narrative of "renewal" to explain its plans for cutting costs and improving its competitiveness. The company focused on its strong brand and loyal customer base, which helped to reassure stakeholders.

8. **Tata Motors:** In 2009, Tata Motors acquired Jaguar Land Rover, a struggling British automaker. Tata Motors used a narrative of "synergy" to explain how it would combine its strengths with those of Jaguar Land Rover to create a global automotive powerhouse.

### 1.7 DATA ANALYSIS AND INTERPRETATION:

For the purpose of study, primary data has been collected from 30 respondents. The demographic composition of the respondents is as follows:

- Gender:**

**Table no. 1 Gender of Respondents**

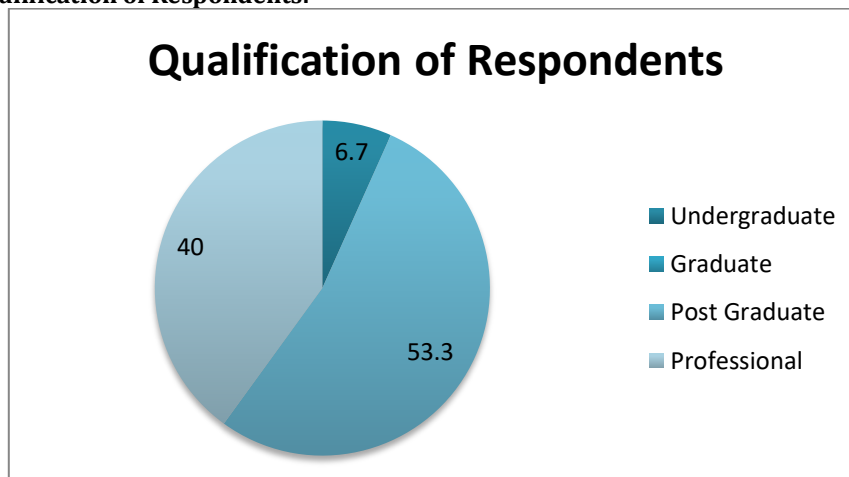
Gender	No. of Respondents	% of Respondents
Male	10	33.33
Female	20	66.67

*Source: Data compiled by researcher*

Out of the 30 respondents, 33.33% were male and 66.67% were female.

- Qualification:**

**Chart no. 1 Qualification of Respondents:**

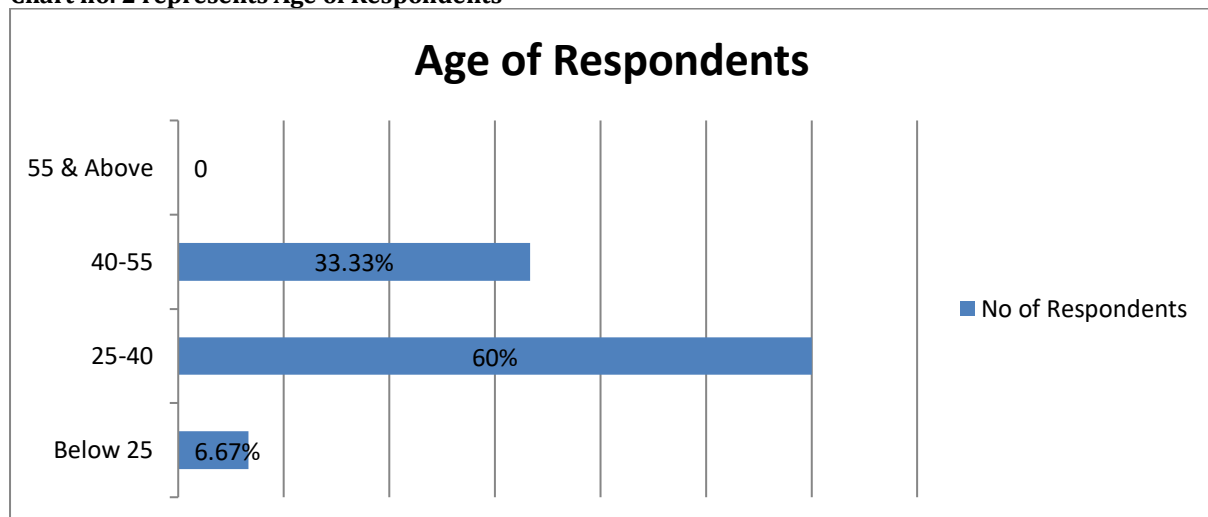


*Source: Data compiled by researcher*

Among the respondents, 6.7% were graduates, 53.3% of the respondents were post graduates and 40% were professionals

- Age:**

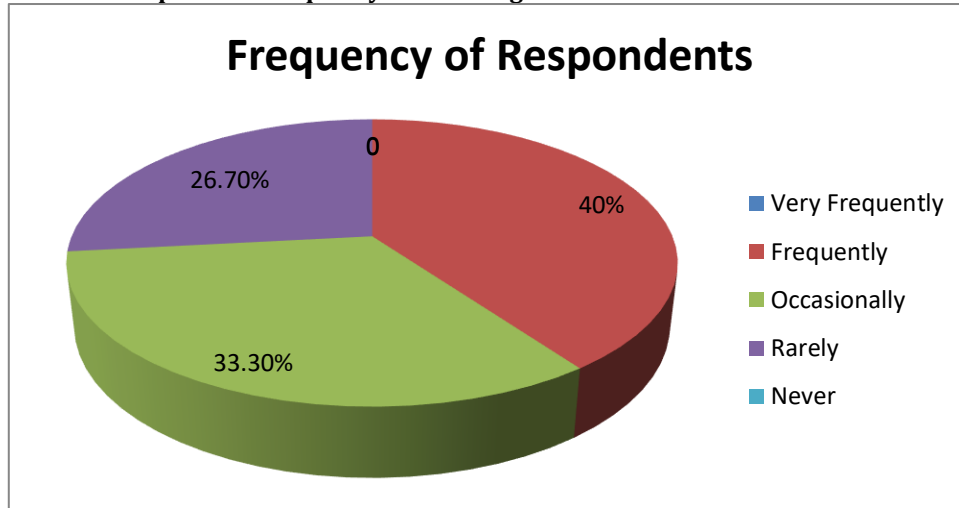
**Chart no. 2 represents Age of Respondents**



*Source: Data compiled by researcher*

- **Occupation:**  
Occupation: 86.7% of the respondents fall in the category of salaried personnel and 13.3% of the respondents belong to professionals.
- **Frequency of referring to Financial Narratives for information during restructuring process:**

Chart no. 3 represents frequency of referring to financial narratives for information

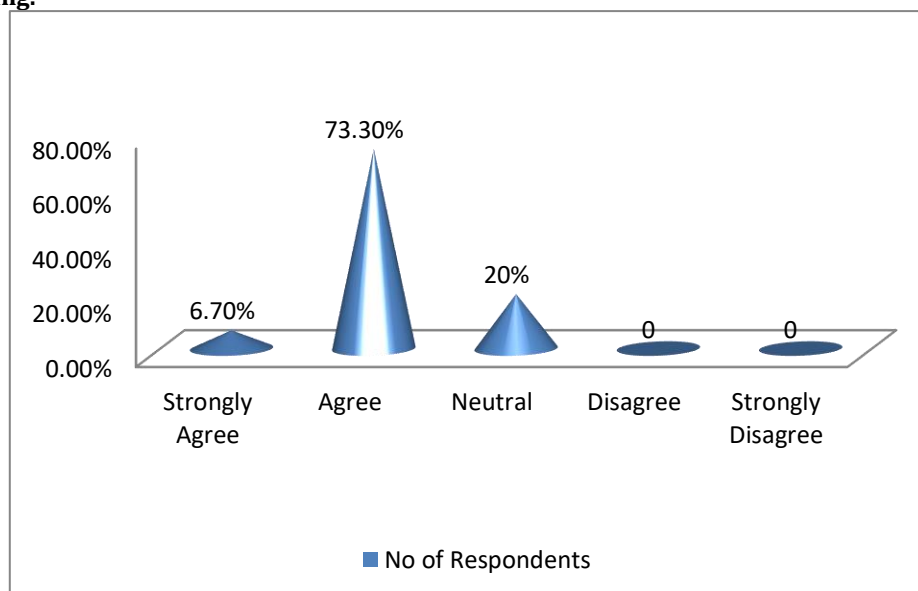


**Source: Data compiled by researcher**

Majority of the respondents (40%) frequently refer to financial narratives for getting information about the company's financial statement. Around 33.3% of the respondents occasionally refer financial narratives whereas 26.7% of the respondents rarely refer financial narratives.

- **Respondents believe that Financial Narratives during restructuring adequately engage different stakeholders:**

Chart no. 4 represents respondents believe that financial narrative engage different stakeholders during restructuring.



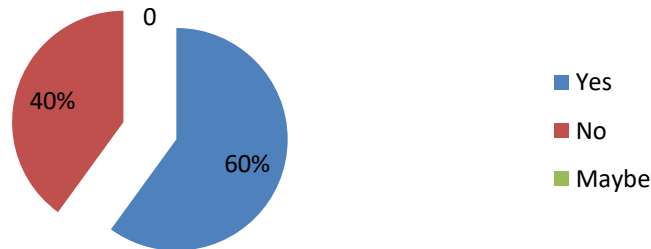
**Source: Data compiled by researcher**

It was observed that 80% of the respondents believe that well-structured financial narratives engage different stakeholders whereas 20% of the respondents were neutral about it due to lack of adequate knowledge of the financial narratives.

- **Effect of Financial Narratives on the trust and confidence of respondents towards the management of the company during restructuring process:**

Chart no. 5 represents effect of financial narrative on the trust of respondents towards management.

## Financial Narratives affect trust and confidence towards management

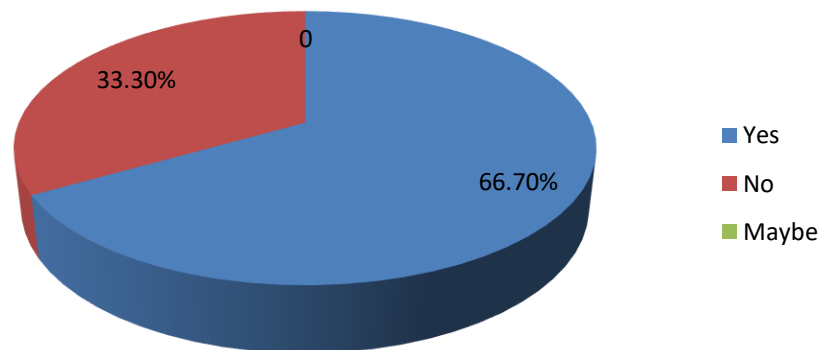


**Source: Data compiled by researcher**

Majority of the respondents (60%) believes that financial narratives affect the trust of respondents towards management as they think that financial narratives gives clarity about the company whereas 40% of the respondents feels that financial narratives do not affect the trust towards management.

- **Contribution of Financial Narratives to transparency in the restructuring process:**  
Chart no. 6 represents contribution of financial narrative to transparency in restructuring process

## Contribution of Financial Narratives to transparency



**Source: Data compiled by researcher**

Around 66.7% of the respondents believes that financial narratives contributes to the transparency in the company's restructuring process whereas 33.3% of the respondents feels that financial narratives do not contributes to the transparency.

- **Testing of Hypothesis:**
- **Hypothesis no 1: There is no significant relationship between the quality of financial narratives during company restructuring and stakeholders' understanding of the organizational changes.**

To test the above hypothesis, the researcher had calculated the coefficient correlation of two variables: Independent Variable (X) - Quality of Financial Narratives and Dependent Variable (Y) understanding of organizational changes. The result of test is as follows:

**Table no. 2 represents the result of correlation test.**

Parameter	Clarity	Quality
Pearson correlation coefficient (r)	<b>0.6071</b>	<b>0.668</b>
r <sup>2</sup>	0.3686	0.4462
P-value	0.01638	0.006497
Covariance	0.1619	0.2048
Sample size (n)	30	30
Statistic	2.755	3.2363

Source: www.jamovi.org

The positive Pearson correlation coefficient and statistically significant p-value suggest that there is a significant positive relationship between the quality of financial narratives during company restructuring and stakeholders' understanding of organizational changes. The test provides evidence against the null hypothesis, indicating that there is indeed a noteworthy correlation.

• **Hypothesis no 2: The effectiveness of financial narratives does not significantly impact decision-making processes during company restructuring.**

To test the above hypothesis, the researcher had calculated the coefficient correlation of two variable: Independent Variable (X) - Effectiveness of Financial Narratives and Dependent Variable (Y) Decision making process. The result of test is as follows:

**Table no. 3 represents the result of correlation test:**

Parameter	Value
Pearson correlation coefficient (r)	<b>0.3185</b>
$r^2$	0.1015
P-value	0.2472
Covariance	0.119
Sample size (n)	30
Statistic	1.2116

Source: [www.jamovi.org](http://www.jamovi.org)

It is observed that there is insufficient statistical evidence to conclude a significant relationship between the effectiveness of financial narratives and the extent to which they influence decision-making processes during company restructuring. Hence the null hypothesis cannot be rejected in this case.

## 1.8 FINDINGS

The study found that while there is a significant positive relationship between the quality of financial narratives and stakeholders' understanding of organizational changes, the effectiveness of financial narratives did not significantly impact decision-making processes.

Stakeholders' understanding of organizational changes appears to be influenced by the quality of financial narratives, emphasizing the importance of clear and informative financial communication during restructuring. Decision-making processes may be influenced by factors other than the mere effectiveness of financial narratives, and further investigation into these factors may be necessary.

## 1.9 SUGGESTION

There is a need to ensure clarity, transparency, and comprehensiveness in presenting financial information. Stakeholders involved in decision-making should be actively engaged in the communication process, with their feedback solicited to understand their preferences and information needs.

Diversify communication channels, such as written reports, presentations, webinars, and multimedia formats, ensures effective outreach to a varied audience. Continuous monitoring and improvement mechanisms should be established, with regular feedback incorporated to adjust communication strategies.

Furthermore, training and development programs can empower stakeholders with financial literacy, facilitating a better understanding of key financial metrics.

## 1.10 CONCLUSION

As organizations navigate the complexities of restructuring, it is imperative to recognize that successful communication extends beyond quantitative metrics. Qualitative aspects, stakeholder perceptions, and ongoing adaptability play integral roles in shaping a communication strategy that not only informs but also empowers stakeholders. This research contributes valuable insights to the broader discourse on effective corporate communication, underscoring its significance in times of organizational change. Ultimately, it is through a nuanced understanding of stakeholder dynamics and strategic communication that organizations can navigate restructuring successfully and build enduring relationships with their stakeholders.

## 1.11 SCOPE FOR FURTHER RESEARCH

- 1) Explore additional factors that may influence decision-making processes during company restructuring.
- 2) Investigate the impact of different communication strategies on stakeholders' decision-making.
- 3) Consider qualitative methods to gather in-depth insights into stakeholders' perceptions and experiences during restructuring.

## REFERENCE

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