

Impact of Insolvency and Bankruptcy Code, 2016 on Corporate Financial Discipline, Credit Recovery and Financial Stability in India

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Abstract:

The Insolvency and Bankruptcy Code created a structured framework for resolving financial distress, making recovery, resolution time and financial discipline important empirical questions. IBC changed the institutional response to corporate financial distress by creating a structured process intended to improve resolution and recovery. Its effectiveness should be assessed through multiple outcomes: recovery relative to claims, resolution time, preservation of going-concern value, creditor behaviour and financial discipline. Recovery is influenced by asset quality, industry conditions, litigation, creditor structure and timing. Therefore, aggregate recovery figures cannot by themselves establish causal impact. Case-level analysis can test whether resolution duration, claim size, sector and outcome type explain recovery differences. Financial discipline is an important indirect effect. A credible insolvency framework can strengthen lender monitoring and encourage distressed firms to address problems earlier. It can also improve expectations about recoverability and support more efficient allocation of credit. At the same time, delays or institutional capacity constraints can reduce the value preserved through resolution. A case-level dataset using public IBBI information can support regression and survival analysis. The study can compare resolution and liquidation outcomes and test whether longer processes are associated with lower recovery after controlling for case characteristics. The proposed research uses an empirical framework to examine measurable relationships while recognising differences in firm size, sector, professional capability and institutional context. It combines quantitative measurement with appropriate secondary evidence

Keywords: insolvency and bankruptcy code; credit recovery; financial discipline; corporate insolvency; financial stability; india

Introduction

The Insolvency and Bankruptcy Code created a structured framework for resolving financial distress, making recovery, resolution time and financial discipline important empirical questions. IBC changed the institutional response to corporate financial distress by creating a structured process intended to improve resolution and recovery. Its effectiveness should be assessed through multiple outcomes: recovery relative to claims, resolution time, preservation of going-concern value, creditor behaviour and

financial discipline. Recovery is influenced by asset quality, industry conditions, litigation, creditor structure and timing. Therefore, aggregate recovery figures cannot by themselves establish causal impact. Case-level analysis can test whether resolution duration, claim size, sector and outcome type explain recovery differences. The study is positioned within the Indian institutional environment and is designed to move beyond descriptive discussion toward measurable relationships. The research is particularly relevant because changes in regulation, technology and professional practice can affect firms differently according to size, sector, managerial capability and access to specialised advice.

Background And Context

IBC changed the institutional response to corporate financial distress by creating a structured process intended to improve resolution and recovery. Its effectiveness should be assessed through multiple outcomes: recovery relative to claims, resolution time, preservation of going-concern value, creditor behaviour and financial discipline. The Insolvency and Bankruptcy Code created a structured framework for resolving financial distress, making recovery, resolution time and financial discipline important empirical questions. The wider policy environment is characterised by increasing digitisation, stronger information systems and greater expectations of transparency. These developments create efficiency opportunities but also impose capability requirements. A useful empirical study must therefore examine both benefits and adjustment costs.

Problem Statement

The central research problem is that headline indicators do not fully reveal firm-level effects. Financial discipline is an important indirect effect. A credible insolvency framework can strengthen lender monitoring and encourage distressed firms to address problems earlier. It can also improve expectations about recoverability and support more efficient allocation of credit. At the same time, delays or institutional capacity constraints can reduce the value preserved through resolution. The proposed study therefore asks whether the relevant intervention or condition is associated with measurable changes in the selected outcome after controlling for other firm characteristics.

Literature Review

Prior research in this area can be grouped into institutional, behavioural and technology-oriented perspectives. Institutional studies examine how formal rules alter incentives and reporting practices. Behavioural studies examine how managers, professionals and investors respond to information, cost and uncertainty. Technology studies examine whether digital tools complement human capability or substitute routine work. Recovery is influenced by asset quality, industry conditions, litigation, creditor structure and timing. Therefore, aggregate recovery figures cannot by themselves establish causal impact. Case-level analysis can test whether resolution duration, claim size, sector and outcome type explain recovery differences. The present paper combines these perspectives.

Conceptual Framework

The proposed framework treats the main explanatory construct as an input that operates through organisational or behavioural mechanisms. Firm size, sector, age, leverage, ownership and professional capability can act as control variables. Where appropriate, digital readiness, audit quality, professional training or institutional capacity can be specified as moderators. A case-level dataset using public IBBI information can support regression and survival analysis. The study can compare resolution and liquidation outcomes and test whether longer processes are associated with lower recovery after controlling for case characteristics.

Research Objectives

The study has four broad objectives: to measure the principal explanatory construct; to examine its association with the selected economic or behavioural outcome; to identify moderating or mediating factors; and to develop evidence-based implications for policymakers, firms and professionals.

Research Questions

The research asks: What is the direction and strength of the relationship between the principal explanatory variable and the outcome? Does the relationship differ across firm size, sector or capability? Which organisational mechanisms explain the relationship? Which interventions can reduce negative effects or strengthen positive effects? A case-level dataset using public IBBI information can support regression and survival analysis. The study can compare resolution and liquidation outcomes and test whether longer processes are associated with lower recovery after controlling for case characteristics.

Research Hypotheses

The hypotheses are framed as testable propositions rather than predetermined findings. H1: The principal explanatory variable has a statistically significant relationship with the primary outcome. H2: The relationship remains significant after controlling for firm characteristics. H3: organisational capability strengthens or weakens the relationship. H4: the relationship differs across relevant firm or sector groups. H5: higher-quality professional or institutional support is associated with better outcomes.

Research Methodology

A mixed-method empirical design is proposed. The quantitative component can use firm-level survey data, secondary financial data or regulatory records depending on the topic. The qualitative component can use interviews with relevant professionals to understand mechanisms and implementation barriers. A case-level dataset using public IBBI information can support regression and survival analysis. The study can compare resolution and liquidation outcomes and test whether longer processes are associated with lower recovery after controlling for case characteristics.

Sampling Design

The sample should include sufficient variation in firm size, sector and geography. A stratified design is preferable when the population is heterogeneous. The final sample size should be determined using power analysis rather than convenience alone. Where a regional focus is required, the selected region should be treated as an analytical sub-sample unless the sampling frame supports broader generalisation.

Variables And Measurement

The dependent variable should be measured using more than one indicator where possible. The principal explanatory variable should have a transparent operational definition. Perceptual constructs can use multi-item Likert scales, while financial variables can be calculated from audited statements. All coding rules, missing-data treatment and transformations should be documented.

Data Analysis

Descriptive statistics should be followed by reliability and validity testing where perceptual scales are used. Correlation analysis can identify initial associations, while multiple regression, logistic or ordinal models can be selected according to the dependent variable. Interaction terms can test moderation. Panel or lagged models should be considered where longitudinal data are available. Robustness tests should use alternative measures and specifications.

Expected Results And Interpretation

The study should not assume a positive or negative result before data analysis. Financial discipline is an important indirect effect. A credible insolvency framework can strengthen lender monitoring and encourage distressed firms to address problems earlier. It can also improve expectations about recoverability and support more efficient allocation of credit. At the same time, delays or institutional capacity constraints can reduce the value preserved through resolution. A meaningful contribution can arise even if a hypothesis is not supported because non-significant or opposite relationships can identify boundary conditions. Effect size and practical significance should be reported alongside statistical significance.

Managerial And Professional Implications

Recovery is influenced by asset quality, industry conditions, litigation, creditor structure and timing. Therefore, aggregate recovery figures cannot by themselves establish causal impact. Case-level analysis can test whether resolution duration, claim size, sector and outcome type explain recovery differences. Managers and professionals should focus on capability building, internal controls, process redesign and evidence-based adoption rather than technology or regulation in isolation. Training should be linked to actual workflow requirements.

Policy Implications

Policy recommendations should be proportional to the evidence. Regulators can improve clarity, data quality, transparency and institutional capacity. Professional bodies can develop guidance and continuing education. Smaller firms may require targeted support because fixed compliance or technology costs can be disproportionately high.

Limitations

Cross-sectional evidence may limit causal inference, while self-reported responses can create social-desirability bias. Secondary data may contain missing observations or changes in definitions across years. Regulatory and economic outcomes can also be affected by macroeconomic shocks. These limitations should be stated clearly and addressed through robustness checks where feasible.

Future Research

Future studies can use longitudinal datasets, district-level comparisons, sector-specific samples, matched control groups and qualitative case studies. Greater availability of digital records may allow researchers to combine survey responses with anonymised administrative indicators, subject to privacy and access requirements.

Conclusion

IBC changed the institutional response to corporate financial distress by creating a structured process intended to improve resolution and recovery. Its effectiveness should be assessed through multiple outcomes: recovery relative to claims, resolution time, preservation of going-concern value, creditor behaviour and financial discipline. Recovery is influenced by asset quality, industry conditions, litigation, creditor structure and timing. Therefore, aggregate recovery figures cannot by themselves establish causal impact. Case-level analysis can test whether resolution duration, claim size, sector and outcome type explain recovery differences. Overall, the insolvency and bankruptcy code created a structured framework for resolving financial distress, making recovery, resolution time and financial discipline important empirical questions. The proposed research provides a structured path for testing the relationship empirically and for separating formal compliance or adoption from substantive economic and professional outcomes.

Proposed Analytical Model

Construct	Indicative Measures	Expected Relationship
insolvency code	adoption, implementation or exposure score	primary explanatory variable
Outcome	financial, behavioural or professional indicators	dependent variable
Capability	skills, training, digital maturity or governance	moderator

Controls	size, age, sector, leverage and ownership	control variables
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6. Securities and Exchange Board of India. Regulatory circulars, corporate disclosures and investor-related publications, where applicable.
7. Insolvency and Bankruptcy Board of India. Annual reports, process statistics and insolvency resources, where applicable.
8. Institute of Chartered Accountants of India. Professional standards, accounting guidance and technical publications, where applicable.
9. Peer-reviewed journal literature should be added after database verification and formatted according to the target journal's reference style.

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