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BANKRUPTCY AS A WAY TO RESTRUCTURE A CORPORATION

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ABSTRACT

Aim: The aim of this study is to learn what factors affect bankruptcy and how it affects a firm's ability to restructure.

Background/objectives: The bankruptcy of the firm in which they are working might affect the salary of the laborers. Bankruptcy may lead to unemployment due to which the workers have to suffer financially. To elaborate on the meaning of bankruptcy and to discover the factors that lead to the bankruptcy of a firm are the major objectives of this study.

Methods: Secondary qualitative methods are used to analyze the topic.

Findings: Thematic analysis is done to understand the research study.
Conclusion: In this paper, the association of bankruptcy with restructuring a corporation is highlighted, and also determined that debt management can bring debt under control.

Keywords- Bankruptcy, corporation, insolvency

Introduction

Bankruptcy refers to a situation where a person has no money and is unable to pay their debts. As stated by Jebran & Chen, (2023) bankruptcy can be caused by many factors and has adverse effects on the reputation of the company, income, and employment.

The bankruptcy of the firm in which they are working might affect the salary of the laborers. Bankruptcy may lead to unemployment due to which the workers have to suffer financially. On the other hand, as stated by, Liang et al. (2020), there are some advantages to bankruptcy, although. The company may gain from declaring bankruptcy. They are no longer obligated to pay the debt and can use their savings to reorganize the business once more. As stated by Basterretxea, Cornforth, & Heras-Saizarbitoria (2022), the company can focus on the new products and start their business from the beginning with the implementation of new strategies.

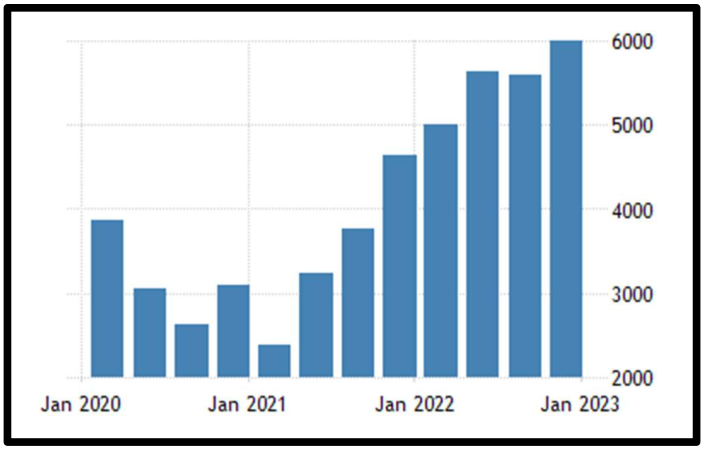

Figure 1: Indian bankruptcies statistics
(Source: Statista, 2023)

Restructuring the organization again might save the employers from getting unemployed. In this way, the workers do not have to suffer financially (Jebran & Chen, 2023).To prevent the business from going bankrupt, steps could be taken such as maintaining the current management system or implementing new ones, balancing cash flow, and maintaining accurate financial records.

Research aim and objectives

The aim of this study is to learn what factors affect bankruptcy and how it affects a firm's ability to restructure. The study has numerous objectives, which can be listed as,

RO1: To elaborate on the meaning of bankruptcy
RO2: To discover the factors that lead to the bankruptcy of a firm
RO3: To estimate the consequences of bankruptcy
RO4: To determine the advantages and disadvantages of bankruptcy

Research questions

RQ1: What does the term bankruptcy mean?

RQ2: What are the factors that lead to the bankruptcy of a corporation?

RQ3: What are the consequences of bankruptcy?

RQ4: How bankruptcy leads to the restructuring of a company?

Literature Review

Factors related to reputation of the firms

Various problems are raised during the completion of the project, which are mentioned in this section. A company that files for bankruptcy no longer has to pay its debts; this is an advantage for the company. However, it will destroy the reputation of the company. As stated by Durana et al. (2021), The Company will lose its credit due to the declaration of bankruptcy.

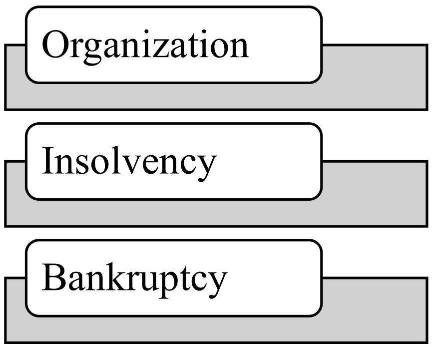

Figure 2: Factors related to the reputation of a firm

(Source: influenced by Durana et al. 2021)

Income and employment of the company will be negatively influenced by bankruptcy. Loss of credit will destroy the image of the company, which will make it impossible for the company to get a loan to reconstruct its business or to get a regular credit card (Basterretxea, Cornforth, & Heras-Saizarbitoria, 2022).

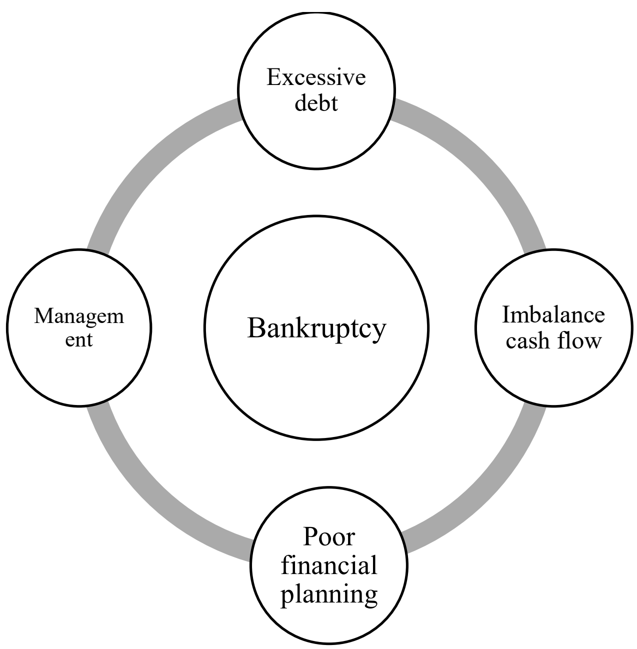

Figure 3: Factors associated with bankruptcy
(Source: influenced by Kamalirezaei et al. 2020)

The issues and factors surrounding a company's bankruptcy are the prime focus of this article. The goal of this study is to identify the methods that an organization could use to avoid or overcome bankruptcy. Numerous problems are discussed and the solutions are mentioned according to it (Kamalirezaei et al. 2020).

2.1 Corporation governance and bankrupt firms

Bankrupt companies are those that are running out of cash and unable to pay their debts. Bankruptcy can occur for a variety of reasons and has various impacts on the growth of the company. As stated by Li et al. (2021), the legal process of disbanding all the assets and properties that a debtor owns to pay off their debt. The financial state of a company or a person in which the amount of the debt exceeds all the assets and properties owned by the debtor is termed as insolvency (Basterretxea, Cornforth, & Heras-Saizarbitoria, 2022). Bankruptcy and insolvency are always interconnected, a bankrupt is always insolvent however, insolvent is not mandatorily bankrupt (Kamalirezaei et al. 2020). Corporate governance is the mechanism that includes sets of rules and regulations that could be applied by the company to grow its business. The role of corporate governance is to give proper facilities and opportunities to the organization to restructure the business once again.

2.2 Probability and causes of organizational bankruptcy

Probability of organizational bankruptcy is the likelihood of relevant measures of financial torment that could occur. Analysis of the likelihood of bankruptcy using organizational data will be useful in preventing an organization's bankruptcy. As stated by Moradi & Beigi (2020), profitability, return of the stock, solvency for a short period, advantage, and imbalance flow of cash are some of the significant company-specific considerations of bankruptcy. Various probabilities could be measured by using different machine-learning models such as the Random forest model, Support Vector Machines (SVM) (Aydın, & Kamal, 2022). Proper analysis of the data is mandatory to prevent organizational bankruptcy or insolvency.

2.3 Factors associated with bankruptcy

Many factors can cause a business to go bankrupt. The management system is the main factor that can contribute to the growth and development of the company. As stated by Moradi, & Beigi (2020), poor management systems can have negative effects on the financial condition of the company. The managers maintain every process starting from the creation of products to the selling of products; therefore, it is mandatory for a company to build a proper management system. The irresponsibility of the higher authorities of a company can lead to debt and loss of property; it may lead to the bankruptcy of a company (Aydın, & Kamal, 2022). Taking an excessive amount of debt is the major cause of bankruptcy.

2.4 Benefits and drawbacks of bankruptcy

This section will go over the many advantages and disadvantages of bankruptcy. As stated by Ogachi et al. (2020), after filing the bankruptcy, the company will get an opportunity to give a fresh start to the financial section. On the other hand, as stated by Srebro et al. (2021), the fame of the company may be hampered. All the advantages and disadvantages are mentioned in the table below:

Benefits	**Drawbacks**
I.All the debts will be removed.	I.Company's credit will be lost.
I.Some incomes will remain unaffected.	I.Asset and properties will be lost
I.Dispensations are allowed.	I.Some burden may remain such as taxes, alimony, etc.

Table 1: Showing the advantages and disadvantages of bankruptcy

(Source: Influenced by Aydın, & Kamal, 2022)

The irresponsibility of the higher authorities of a company can lead to debt and loss of property; it may lead to the bankruptcy of a company. Taking an excessive amount of debt is the major cause of bankruptcy (Aydın, & Kamal, 2022).

Methodology

The methods or procedures that will be used in the research to locate relevant data and facts are described in this section. Data can be collected and outcomes can be improved using a variety of methods. Following the investigation, the "positivism" philosophy will be utilized. According to Muhaise & Ejiri et al. (2020), positivist philosophy relies on actual data for its data. The research plan and its execution are the secondary components of research strategies. The "inductive" research strategy is the one that will be utilized for this study. A descriptive research design will be used in this study. As stated by Kirongo & Odoyo (2020), the study can be qualitative or quantitative, including descriptive research. The secondary data collection method will be demonstrated in the paper in this study. Thematic analysis will be used to analyze the data after they have been collected.

Findings

After collecting and analyzing the data, may find out the solution to the research questions such as what is bankruptcy and why bankrupt, what is the restructuring of a business, how bankruptcy is associated with restructuring a corporation, how restructuring works

Analysis of the term bankruptcy

A company declares bankruptcy when it is unable to meet its financial commitment or pay its creditors. According to Ellias & Stark (2020), all of the company's unpaid debts are assessed and, if necessary, paid for in full out of the company's assets, according to an urge filed with the court. By either liquidating assets to pay off debts or establishing a repayment plan, bankruptcy helps people who are unable to pay their debts get back on their feet. Businesses in financial trouble are also protected by bankruptcy laws. As commented by Greenwood

& Iverson et al. (2020), loss of income, lending money, high medical costs, and an unaffordable mortgage are all potential causes of bankruptcy.

Losing a job that provides a steady income can put a significant strain on a person's finances because many people survive on minimum wage. Another major factor that contributes to bankruptcy is the cost of medical care. In some cases, medical issues can also cause job loss. As mentioned by King & Meglio et al. (2022), a buyer may sometimes receive approval from a lender for a larger loan than they can repay. If they don't make their payments, those who take out these loans run the risk of losing their homes to foreclosure. They may experience a financial setback or lose their job.

Bankruptcies in the United Kingdom are company insolvencies in England and Wales that are made up of creditors' voluntary liquidations registered at Companies House and compulsory liquidations.

Evaluation of business restructuring

The model structure of every business is designed to show how the company works to achieve its objectives. According to Kirongo & Odoyo (2020), a business organization may be organized by specialized function, for instance by placing marketers in the marketing department and accountants in the finance department. A business may also be organized into a business line or division. Restructuring a business involves recognizing the system in a new way to improve efficiency, frequently altering the original structure. As stated by Mavlutova, Babenko & Dykan et al. (2021), reconfigurations or more ground-level changes like adding, splitting, transferring, or dissolving business units that don't necessarily affect the deeper structure are likely to be included in a restructure.

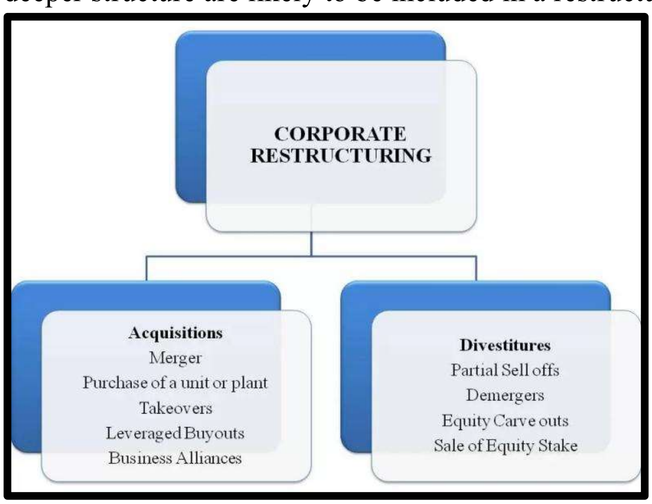

Figure 4: Corporate restructuring factors

(Source: Influenced by Muhaise & Ejiri et al. 2020)

Operations, procedures, departments, and ownership may all shift because of an internal restructuring, allowing the business to become more integrated and profitable. As commented by Muhaise & Ejiri et al. (2020), negotiating plans for reorganization are adopted to have effective performances and in this time the financial and legal advisors are frequently hired. Investors might buy a portion of the business, and new CEO might be hired to help bring about the changes. Procedures, computer systems, networks, locations, and legal issues might all change as a result. Because jobs may overlap, employees may be laid off, and jobs may be eliminated.

Exploration of how bankruptcy is associated with the restructuring of a business

Businesses in trouble may choose to reorganize themselves in bankruptcy if nothing else works. According to Skeel (2020), the first step in this kind of reorganization is filing for bankruptcy. However, the business continues to operate. Through financial restructuring, bankruptcy reorganization extends a business's lifespan. Other strategies, like marketing, management, or the company's mission, may also be altered. Businesses pay less to their creditors through bankruptcy reorganization. The company tries to pay off its debts through these special arrangements.

Analysis of the term debt management

Through budgeting and financial planning, debt management can bring debt under control. As mentioned by Turale (2020), using these methods, a debt management plan aims to lower and eventually eliminate existing debt. Unsecured debts like credit cards and personal loans are addressed in debt management plans. Most of the time, debt management is done in one of two strategies. First is DIY debt management, a version of the management of debt. In this version, they make a budget that will help them pay off their debts and keep their finances stable. According to Ellias & Stark (2020), credit counseling is another way of processing debt management. A credit counselor can help them with a plan to repay their lending money. In addition, a method will help them to pay their lending money by hiring a debt relief company.

Discussion

After a thematic analysis of the data, it concludes that bankruptcy is associated with business reconstruction. There are the secondary thematic data analysis process is properly determined by the attributes of this methodology part. In addition, different types of research studies help to understand better approaches for the further implementation of this study in the future.

Conclusion

In this paper bankruptcy as a way to restructure, a corporation is highlighted. Thus, it concluded from this paper that bankruptcy and corporate restructuring are at the forefront of public consciousness during these turbulent economic times. When a company undergoes restructuring, it typically makes significant adjustments to its financial or operational structure under financial pressure. When preparing for a sale, buyout, merger, change in overall goals, or ownership transfer, businesses may also restructure. Therefore, debt management can lead to debt inhibition.

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