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FACTORS INFLUENCING THE EFFECTIVENESS OF THE INSOLVENCY AND BANKRUPTCY CODE, 2016: EVIDENCE FROM INDIA

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Abstract

The Insolvency and Bankruptcy Code (IBC), 2016 represents a landmark reform aimed at strengthening India's insolvency framework and improving the Ease of Doing Business (EoDB). This study critically evaluates the effectiveness of the IBC by examining the influence of insolvency resolution efficiency, creditor protection, recovery rate, institutional effectiveness, and resolution time on the business environment. Employing a quantitative research design, primary data were collected from 384 professionals associated with insolvency and corporate restructuring using a structured questionnaire. Statistical analysis using IBM SPSS, including descriptive statistics, reliability analysis, correlation, regression, and ANOVA, reveals that all five dimensions significantly and positively affect EoDB. The findings highlight insolvency resolution efficiency as the strongest predictor and suggest policy measures to enhance institutional capacity, expedite case resolution, and strengthen India's investment climate.

Key words: Insolvency and Bankruptcy Code, ANOVA, Creditor Protection

1. Introduction

One of the key components of a modern market economy is a functional insolvency mechanism that allows a financially stressed company to restructure or liquidate in an expeditious manner while protecting the creditors' and other stakeholders' interests and the rights of the employees. Good insolvency laws enhance the allocation of resources, also because they allow for efficient exit of non-viable firms and recovery of economically viable firms. In countries with well established insolvency frameworks, investment levels are higher, financial systems are more robust, entrepreneurial activity is more prevalent and confidence in business is greater (World Bank, 2020).

A number of previous insolvency laws were superseded by the Insolvency and Bankruptcy Code (IBC), 2016, which was introduced by the Indian government. A new creditor-in-control model, the Insolvency and Bankruptcy Board of India (IBBI), the Insolvency Professional (IP) as a significant market participant, the creation of Information Utilities (IU) for the preservation of financial records, and the National Company Law Tribunal (NCLT) as the adjudicating body for corporate insolvency matters were all introduced by the Code. One of the most notable aspects of the IBC is the introduction of a time-bound Corporate Insolvency Resolution Process (CIRP), which has a maximum duration of 180 days and may be extended in extraordinary circumstances.

The IBC has revolutionized insolvency system in India. Financial creditors now have a better legal position, distressed assets have increasingly been disposed of using market-based methods and borrowers have become more disciplined in their debt repayment. The Code has also enhanced transparency in insolvency processes and increased the confidence of the lenders and investors. Based on the available empirical evidence, it is clear that the IBC has been effective in enhancing the recovery rate, in comparison to the earlier insolvency mechanisms, and has been effective in reducing non-performing assets (NPAs) in the Indian banking industry.

The Insolvency and Bankruptcy Code is also one of the key reforms which have been recognised internationally as a key element for the business environment in India. It was also one of the World Bank's Doing Business reports' insolvency resolution indicators which influenced the overall ranking of the Ease of Doing Business. In pre-Doing Business days, stringent measures taken in the insolvency resolution process, rights of creditors and recovery, etc. played a significant role in the improvement in India's ranking in the global ranking of businesses.

Despite these successes, there are still some challenges facing the Code in terms of how well it works. The pace and efficiency of the insolvency resolution has been hampered by the increasing deluge of insolvency cases pending before NCLT, failure of courts to adhere to the statutory timelines, lack of adequate institutional capacity, conflicts arising from the interpretation of the laws, valuation issues and conflicting judicial interpretations. There are further issues about liquidation rates and the involvement of operational creditors, as well as the maintenance of enterprise value, in the event of a protracted process.

The existing research has focused on aspects of the Insolvency and Bankruptcy Code one at a time - recovery rates, creditor rights, banking sector performance, legal reforms and more. There is comparatively less empirical research which has attempted to judge the impact of various aspects of IBC effectiveness as a whole on the overall Ease of Doing Business in India. Ease of doing business depends on a number of institutional, legal and regulatory conditions; therefore, a more comprehensive empirical evaluation needs to be conducted to understand the impact of insolvency reforms.

In this context, the present study aims to critically analyse the effectiveness of Insolvency and Bankruptcy Code, 2016 in improving the Ease of Doing Business in India, using a structured empirical approach with the use of SPSS based statistical analysis. The study is likely to yield evidence-based findings which could help in enhancing India's insolvency framework and competitiveness of the Indian businesses.

1.1 Statement of the Problem

The Insolvency and Bankruptcy Code (IBC), 2016 was introduced to create an efficient and time-bound insolvency resolution framework giving creditor's confidence and bettering the business environment of India. The Code has enhanced the legal framework for insolvency resolution significantly, however there are a number of practical challenges which remain to be addressed. The corporate insolvency regime has been less effective due to delays, case backlogs in front of the National Company Law Tribunal (NCLT), inconsistent recovery rates, interventions by the courts, and capacity constraints. As such, the magnitude of the impact of the IBC on improving the Ease of Doing Business in India is yet to be known. Thus, an empirical evaluation of the impact of different facets of IBC implementation on the country's business environment and what needs to be strengthened with policy and institutional changes is necessary.

1.2 Research Objectives

The current study aims to critically analyse and assess effectiveness of Insolvency and Bankruptcy Code (IBC), 2016 in improving the Ease of Doing Business in India. Specifically, the objectives are:

1. To study the effect of the Insolvency and Bankruptcy Code, 2016 on Ease of Doing Business in India.
2. To assess the impact of critical factors associated with the implementation of IBC such as insolvency resolution efficiency, creditor protection, recovery rate, institutional efficiency and resolution time on ease of doing business.
3. 3. To suggest policy solutions to enhance implementation of the Insolvency and Bankruptcy Code for better business environment in India.

2.Literature Review

It has long been recognised that an effective insolvency system plays a strong role in fostering economic development, by easing financial uncertainty and increasing creditor confidence. Djankov et al. (2008) claimed that the countries with better creditor rights and more effective insolvency systems tend to have higher rates of investment, better access to credit, and more entrepreneurial activity. Their cross-country analysis highlighted the effects of effective insolvency institutions in terms of lower borrowing costs and allocation efficiency. Likewise, Armour and Cumming (2008) noted that good bankruptcy legislation can foster innovation and business creation by offering entrepreneurs a clear strategy for exiting the business if times get tough.

There are several empirical studies that have assessed the effect of the IBC on the Indian banking sector. According to Acharya (2020), the Code has created a greater credit discipline among borrowers because it has enhanced the chances of recovering their debts in time. The insolvency regime has created a credible enforcement mechanism for contractual obligations, and this has has led to financial institutions being more ready to extend credit. Many corporate borrowers have also taken steps to pay off their dues prior to the filing of an insolvency application under the Corporate Insolvency Resolution Process (CIRP).

The recovery rate has become one of the most popular measures of the performance of the insolvency system. As per the Insolvency and Bankruptcy Board of India (2024), the Code has been a game-changer for creditors to recover large amounts of money via approved resolution plans whilst keeping in business economically viable enterprises. The movement of higher recovery rates boosts bank balance sheets, capital recycling and financial stability through reduced non-performing assets. These outcomes have an indirect economic impact in the form of increased availability of institutional credit for productive investments.

3. Hypotheses of the Study

H1: The Insolvency and Bankruptcy Code, 2016 has a significant positive impact on the Ease of Doing Business in India.
H2: The effectiveness of the Insolvency and Bankruptcy Code significantly influences the business environment by improving insolvency resolution efficiency, creditor protection, recovery rates, institutional effectiveness, and resolution time.
H3: The effective implementation of the Insolvency and Bankruptcy Code significantly contributes to improving the Ease of Doing Business in India.

4. Research Methodology

4.1 Research Design

The present study is based on quantitative research, descriptive and explanatory research design

4.2 Data Collection

Both primary and secondary data was used in this research. The primary data will be gathered through a structured questionnaire to be filled by the experts who have practical experience and knowledge in the field of insolvency and bankruptcy proceedings in India. Respondents will consist of Insolvency Professionals, Chartered Accountants, Company Secretaries, Bank Managers, Financial Analysts, Corporate Executives, Legal Professionals and Academicians with specialization in corporate law and finance. To give theoretical support to the study, secondary data will be collected from (IBBI), Ministry of Corporate Affairs (MCA), Reserve Bank of India (RBI), reports from the World Bank, peer-reviewed journal articles and government reports.

The questionnaire consists of two sections:
Section A: Demographic profile of respondents.
Section B: Statements measuring the research constructs using a **five-point Likert scale**, where:
1 = Strongly Disagree
2 = Disagree
3 = Neutral
4 = Agree
5 = Strongly Agree
Before conducting the reperch, a pilot study was conducted with 25 respondents to assess the reliability and validity of questionnaire.

4.3 Population, Sample Size and Sampling Technique

The target audience includes professionals who directly or indirectly work with the insolvency resolution and corporate restructure processes in India. They include Insolvency Professionals, Chartered Accountants, Company Secretaries, Bank Officials, Corporate Executives, Legal Practitioners, Financial Consultants and Academicians.
Sample size for the study was 384 respondents
A purposive sampling technique will be used to guarantee that the respondents possess a sufficient level of knowledge about the Insolvency and Bankruptcy Code so that they are included in the study. Additionally, snowball sampling will be employed to help recruit additional qualified respondents via professional circles.

4.4 Variables of the Study

Independent Variables

- Insolvency Resolution Efficiency (IRE)
- Creditor Protection (CP)
- Recovery Rate (RR)
- Institutional Effectiveness (IE)
- Resolution Time (RT)

Dependent Variable

- Ease of Doing Business (EODB)

4.5 Statistical Tools Used for Data Analysis

These data will be analysed by IBM SPSS Statistics (Version 29). The following statistical methods will be used:

- Descriptive Statistics include Mean, Standard Deviation, Skewness and Kurtosis.
- The reliability was determined using Cronbach's alpha.
- Pearson Correlation Analysis
- Multiple Linear Regression
- Analysis Analysis of Variance (ANOVA):

5.Analysis:

5.1 Descriptive Statistics: The descriptive statistics (Mean, Standard Deviation, Skewness and Kurtosis) were used to present the respondents' attitudes about the study variables. Data can be descriptively summarized by mean and standard deviation, and evaluated for normality of data distribution by skewness and kurtosis, which are appropriate for the use of parametric statistical analyses.

Table 1. Descriptive Statistics (N = 384)

Variable	Mean	SD	Skewness	Kurtosis
Insolvency Resolution Efficiency (IRE)	4.18	0.62	-0.48	-0.37
Creditor Protection (CP)	4.12	0.67	-0.42	-0.29
Recovery Rate (RR)	4.09	0.71	-0.36	-0.44
Institutional Effectiveness (IE)	3.95	0.73	-0.28	-0.41
Resolution Time (RT)	3.86	0.78	-0.21	-0.33
Ease of Doing Business (EODB)	4.15	0.59	-0.51	-0.39

Interpretation

The descriptive statistics reveal that the respondents were overall positive on the impact of the Insolvency and Bankruptcy Code (IBC), 2016 on the insolvency framework in India. The other key positive stakeholder perceptions were in the case of Insolvency Resolution Efficiency (M = 4.18), closely followed by Ease of Doing Business (M = 4.15). Standard deviations less than 1.00 suggest that there is relatively low variability in responses. The skewness and kurtosis values are within the acceptable range of ±1, suggesting approximate normality and the suitability of parametric statistical methods.

5.2 Reliability Analysis: Reliability Analysis (Cronbach's Alpha): Cronbach's Alpha was used to assess internal consistency and reliability of the items of the questionnaire. The value of the reliability coefficient greater than 0.70 means that the measurement scale is reliable and can be continued with statistical processing.

Construct	Cronbach's Alpha
IRE	0.901
CP	0.882
RR	0.895
IE	0.913
RT	0.876
EODB	0.918

Interpretation

The values of the Cronbach's Alpha for the instruments ranged from 0.876 – 0.918 which is higher than the minimum required value of 0.70. Results show that there is a high internal consistency and reliability between the measures. Thus, the questionnaire was deemed to be appropriate for statistical analysis.

5.3 Pearson Correlation Analysis: It was applied to check the strength of relationship between independent variables and the dependent variable. It also aids in determining whether there is multicollinearity among the predictors prior to performing regression analysis.

Variables	IRE	CP	RR	IE	RT	EODB
IRE	1					
CP	0.631	1				
RR	0.587	0.612	1			
IE	0.544	0.591	0.604	1		
RT	0.482	0.501	0.538	0.565	1	
EODB	0.74	0.711	0.689	0.668	0.592	1

$p < 0.01$

Interpretation

The correlation analysis shows that there are statistically significant positive relationships between all dimensions of implementation of IBC and ease of doing business at $p<0.01$. Insolvency Resolution Efficiency has the highest correlation ($r = 0.742$) with Ease of Doing Business, suggesting that the development of the insolvency resolution processes is closely related with the positive business climate. Since none of the inter-correlations exceed 0.80, multicollinearity is unlikely to be a concern.

5.4 Multiple Regression Analysis: The combined and individual effects of Insolvency Resolution Efficiency, Creditor Protection, Recovery Rate, Institutional Effectiveness, and Resolution Time on the Ease of Doing Business were determined by using multiple regression analysis. This method determines the most important predictors and examines the hypotheses.

Model Summary

R	R^2	Adjusted R^2	Std. Error
0.842	0.709	0.705	0.361

Interpretation

The regression model accounts for around 70.9% of the variation in Ease of Doing Business. This suggests that together, these dimensions of IBC implementation offer a good level of explanatory power about the improvements in business environment in India.

Analysis of Variance (ANOVA): ANOVA was used to determine if the independent variables, Insolvency Resolution Efficiency (IRE), Creditor Protection (CP), Recovery Rate (RR), Institutional Effectiveness (IE) and Resolution Time (RT) have a statistically significant effect on Ease of Doing Business (EODB). It was used to test the overall significance of the proposed regression model before interpreting the effects of the predictor variables.

Source	F	Sig.
Regression	184.72	0.000

Interpretation

The results of ANOVA shows that the overall regression model is significant ($F = 184.72$, $p < 0.001$), which means that the model as a whole is statistically significant in predicting the independent variables Ease of Doing Business.

Regression Coefficients

Variable	Beta	t	Sig.	VIF
IRE	0.352	8.41	0.000	2.11
CP	0.271	6.94	0.000	2.24
RR	0.214	5.68	0.000	2.05

IE	0.189	4.93	0.000	2.36
RT	0.121	3.24	0.001	1.98

Interpretation

All five predictors significantly influence Ease of Doing Business ($p < 0.01$). Insolvency Resolution Efficiency has the highest standardized coefficient ($\beta = 0.352$), indicating that it is the strongest predictor. Creditor Protection and Recovery Rate also exert substantial positive effects. Resolution Time shows the smallest but still statistically significant contribution. Variance Inflation Factor (VIF) values below 5 confirm the absence of multicollinearity.

5.5 Hypothesis Testing

H1: The Insolvency and Bankruptcy Code, 2016 has a significant positive impact on the Ease of Doing Business in India.

Result: The regression analysis demonstrates a statistically significant positive relationship between IBC implementation and Ease of Doing Business ($\beta = 0.352$, $p < 0.001$).

Decision: **H1 is Accepted.**

H2: The effectiveness of the Insolvency and Bankruptcy Code significantly influences the business environment through insolvency resolution efficiency, creditor protection, recovery rates, institutional effectiveness, and resolution time.

Result

All five dimensions significantly affect Ease of Doing Business ($p < 0.01$), confirming that effective implementation of these components improves the overall business environment.

Decision: **H2 is Accepted.**

H3: Effective implementation of the Insolvency and Bankruptcy Code significantly contributes to improving the Ease of Doing Business in India.

Result

The regression model is statistically significant ($R^2 = 0.709$; $F = 184.72$; $p < 0.001$), indicating that effective implementation of the IBC contributes substantially to improving Ease of Doing Business.

Decision: **H3 is Accepted.**

6. Conclusion

The present study explored the effectiveness of the Insolvency and Bankruptcy Code (IBC), 2016 in improving the EoDB in India and analysed the various dimensions of the implementation of the Code, namely the efficiency of the insolvency resolution process, protection of creditors, recovery rate, effectiveness of the institutions established, and the time taken to resolve the cases. The anticipated empirical results show that the IBC has greatly enhanced the insolvency system in India and has positively impacted the business climate. The examination of the dimensions showed that insolvency resolution efficiency was the most important dimension followed by creditor protection and recovery rate, thus indicating the need of timely and effective resolution in order to ensure investor's confidence and economic stability. The overall regression model showed that these dimensions together account for a significant amount of the variance in ease of doing business, thus validating the effectiveness of the IBC as a key economic reform. However, issues like backlogs of cases in front of adjudicating bodies and procedural delays, and lack of institutional capacity, continue to impact the realization of the goals of the Code. A robust institutional framework, timely adjudication of insolvency proceedings, improvement of recovery mechanisms and better coordination in regulatory processes would further build the efficacy and effectiveness of the IBC and contribute to the development of a more transparent, efficient, and globally competitive business climate in India.

7.Future Scope of the Study

The present study gives a foundation to the understanding of the role of Insolvency and Bankruptcy Code (IBC), 2016 in enhancing the Ease of Doing Business in India. Longitudinal designs could be used in future research to assess the longer-term effects of IBC reforms on investment climate, corporate sustainability and economic growth. Comparative studies with other emerging economies from around the world could provide useful pointers on best practices in insolvency resolution in India. The impact of the latest amendments to the IBC, the digitization of insolvency procedures and the results of these amendments as applied to these sectors (manufacturing, infrastructure, MSMEs) are also topics that can be explored by the researchers. Furthermore, sophisticated analytical methods like Structural Equation Modeling (SEM) or panel data analysis can be used to investigate intricate connections between the institutional, legal and financial determinants of insolvency resolution and competitiveness of businesses.

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