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# The Role of the Insolvency and Bankruptcy Code in MSME Revival and Sustainable Enterprise Development

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**Abstract**: *There is a significant contribution of Micro, Small and Medium Enterprises (MSMEs) in India's economic development but at times financial distress poses threat to the sustainability of MSMEs. The Insolvency and Bankruptcy Code (IBC), 2016 was enacted to create a time-based process of insolvency resolution for revival of business and build the confidence of creditors. The present study aims at exploring the role of IBC in revival of MSMEs and sustainable development of enterprises. A quantitative research design was used, and primary data were gathered from the respondents by structured questionnaire, comprising 384 respondents. IBM SPSS (Version 29) was used to analyze the data using descriptive statistics, Cronbach's Alpha, Pearson correlation, multiple regression and ANOVA. The results show that Insolvency Resolution Efficiency, Creditor Protection, Institutional Support and Business Restructuring Effectiveness have significant positive influence on Sustainable Enterprise Development. Of these, the strongest predictor was Insolvency Resolution Efficiency. Based on the study findings, the revival of MSMEs and sustainability of their business and economic resilience are considerably improved by the effective implementation of the IBC, and it is important to build institutional capacity and speed up the insolvency resolution process.*

**Keywords:** Insolvency and Bankruptcy Code (IBC); MSME Revival; Sustainable Enterprise Development; Insolvency Resolution Efficiency.

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## Introduction

The importance of Micro, Small and Medium Enterprises (MSMEs) in the economic development of India cannot be overlooked, as they provide a major share of employment, added value to industrial growth, exports, innovation and balanced regional development. The sector is considered as the backbone of the Indian economy as it can encourage entrepreneurship and help in inclusive economic growth in both rural and urban areas. The Ministry of Micro, Small and Medium Enterprises (MSMEs) reported that there are more than 6.3 crore MSMEs in India with more than 11 crore employments which contribute to nearly 30% of Gross Domestic Product (GDP), almost 36% of manufacturing output, and around 45% of all exports. MSMES play a significant role in poverty alleviation, income generation, and sustainable economic growth due to their labour-intensive processes and low capital involvement. In this context, the financial stability and sustainability of MSMEs has emerged as a key priority for the government of India (Ministry of MSME, 2024).

Despite all these economic significance, MSMEs are highly vulnerable to the financial distress because of limited access to institutional finance, inadequate working capital, delayed payment from the buyer, technological constraints, weak managerial capabilities and uncertainty in the market. MSMEs typically have small financial buffers and rely heavily on borrowings to sustain business operations unlike large corporations. The financial woes were exacerbated by economic shocks like Covid-19, inflation pressures, supply chain disruptions, and a rise in borrowing costs, leading to higher loan defaults, liquidity issues, and business closures. According to the Reserve Bank of India (2024), financial stress among MSMEs remains a serious issue impacting credit growth, banking stability, and overall economic recovery. So, setting up an effective mechanism for timely resolution of financial distress has now become crucial to enhance the resilience and competitiveness of the MSME sector.

The Insolvency and Bankruptcy Code, 2016 was a landmark legislation in the insolvency regime of India as it ushered in a comprehensive, transparent and time-bound framework for the resolution of insolvent companies. The Code brought together all the existing insolvency legislations into one law and introduced several institutional provisions like the Insolvency and Bankruptcy Board of India (IBBI), Insolvency Professionals (IPs), Information Utilities (IUs) and the National Company Law Tribunal (NCLT). It had also implemented a model of creditor in control with the Corporate Insolvency Resolution Process (CIRP), which allows financial creditors to define the fate of troubled companies and maximise value of their assets and recovery rates (Government of India, 2016). Since the introduction of the Code, it has increased the discipline for credit, boosted investor confidence and strengthened recovery processes in the Indian financial system (IBBI, 2024).

The effects of IBC on the performance of the banking sector, creditor recovery, the efficiency of corporate governance and insolvency resolution are the areas primarily explored in existing studies. In contrast, there is relatively limited empirical research that has examined the joint effect of the parameters of insolvency resolution efficiency, creditor protection, restructuring efficiency, institutional support, and access to finance on MSME revival and sustainable enterprise development. The present study aims to investigate the role of Insolvency and

Bankruptcy Code in revival of MSMEs and sustainable enterprise development in India through quantitative research method to overcome the aforesaid research gap. The results will offer helpful insights to policymakers, financial institutions, insolvency professionals, and MSME stakeholders on the steps needed to augment the insolvency landscape and help boost the sustainability of the MSME sector.

The present study is significant as it examines the role of the Insolvency and Bankruptcy Code (IBC), 2016 in facilitating the revival of financially distressed Micro, Small and Medium Enterprises (MSMEs) and promoting sustainable enterprise development in India. MSMEs are major contributors to employment, industrial output, and economic growth, yet they remain highly vulnerable to financial distress and business failure. By analysing the effectiveness of the IBC in improving insolvency resolution, creditor confidence, restructuring efficiency, and business sustainability, the study provides valuable insights into the strengths and challenges of the existing insolvency framework. The findings will assist policymakers, financial institutions, insolvency professionals, and MSME entrepreneurs in identifying measures to strengthen the implementation of the IBC. Furthermore, the study contributes to the existing literature by empirically linking insolvency reforms with MSME revival and sustainable enterprise development, thereby supporting evidence-based policy formulation and future academic research.

### 1.2 Financial distress and challenges faced by MSMEs.

While MSMEs play a crucial role in the economy, they are grappling with a variety of financial and operational issues that can impact their sustainability. Financial distress is common as a result of limited access to institutional credit, shortage of working capital, late payments by buyers, increasing production costs, technological limitations, and heavy competition in the market. The COVID-19 pandemic and other external shocks further impacted their fragile financial situation by disrupting business operations and cash flows. Consequently, there are liquidity constraints, cases of loan default and business closures among the majority of MSMEs, which makes an efficient insolvency mechanism that facilitates timely restructuring and revival of the enterprise imperative (Reserve Bank of India, 2024).

### 1.3 Statement of the Problem

INSOLVENCY AND BANKRUPTCY CODE, 2016 (IBC) has enhanced the Indian insolvency regime, but there is a concern about it in reviving the financially distressed Micro Small and Medium Enterprises (MSMEs) effectively. The slow pace of business restructuring and sustainable growth remains a significant challenge due to factors including delayed procedures, low awareness, lack of institutional support and high cost of finance. Hence, it is critical to explore the role of IBC in the revival of MSME and then identify some measures to strengthen the role of IBC in promoting sustainable enterprise development in an empirical approach.

### 1.4 Research Objectives

The present study aims to examine the role of the Insolvency and Bankruptcy Code (IBC), 2016 in promoting MSME revival and sustainable enterprise development in India. Specifically, the study seeks to:

1. To examine the role of the Insolvency and Bankruptcy Code (IBC), 2016 in the revival of financially distressed Micro, Small and Medium Enterprises (MSMEs).
2. To analyse the impact of insolvency resolution efficiency, creditor protection, institutional support, and business restructuring on sustainable enterprise development among MSMEs.
3. To suggest policy measures for strengthening the implementation of the Insolvency and Bankruptcy Code to enhance MSME revival and promote sustainable enterprise development in India.

**Literature Review**

An efficient insolvency regime is seen as one of the factors that has a strong influence on economic growth, financial stability and business sustainability. Reliable insolvency regimes help to speed up the resolution of financially troubled companies, boost investor confidence, increase credit supply and maintain enterprise value. The Organisation for Economic Co-operation and Development (OECD, 2023) noted that effective insolvency mechanisms encourage entrepreneurship by allowing viable businesses to restructure and provide for the efficient closure of unviable businesses. Likewise, the World Bank (2022) noted modern insolvency frameworks bolster investment climate through less uncertainty, better debt recovery, and a better business climate.

The Insolvency and Bankruptcy Code (IBC), 2016 is known as one of the most important economic reforms in India for revolutionising the insolvency ecosystem. The Code has ushered a time-bound, creditor-driven and transparent resolution process for insolvency cases that has significantly enhanced the recovery rates and minimized delays as compared to the erstwhile disjointed legal regime, according to the Insolvency and Bankruptcy Board of India (IBBI, 2024). The IBC has also introduced measures to make credit discipline more robust for borrowers, strengthened early settlement of credit defaults by the borrowers, and boosted confidence of financial institutions, thus enhancing the stability of the banking sector.

There have been a number of studies focused on the financial institutions and corporate insolvency resolution issues arising from the IBC. Acharya (2020) contended that the inclusion of the IBC had a positive impact on the repayment rate of borrowers by giving them a credible option of liquidation proceedings. This has helped lenders to be more confident and so to be able to provide credit more effectively. Similarly, Sahoo (2022) noted that the Code has enhanced the institutional regime, made insolvency proceedings more transparent, and its provisions have facilitated a more efficient corporate restructuring process. The author added that there is still an inherent lag time in the resolution of insolvency cases by the National Company Law Tribunal (NCLT) and capacity issues are prevailing.

Regarding MSMEs, the researchers have been putting more emphasis on the need to shift the focus of traditional insolvency procedures from liquidation towards business rescue. MSMEs have low access to credit, high concentration of ownership and moderate financial shock resilience. In light of these, the Government launched the Pre-Packaged Insolvency Resolution Process (PPIRP) in 2021 to offer a streamlined and affordable restructuring process for

MSMEs. The IBBI (2024) stated that the PPIRP allows for quicker negotiations between the debtors and creditors, reduces litigation expenses, and ensures business continuity, thus enhancing the chances of revival of MSMEs.

Certain recent research also has correlated insolvency reforms to sustainable enterprise development. OECD (2023) said that effective insolvency procedures facilitate the sustainability of enterprises, through the retention of productive assets, the protection of jobs, fostering innovation and better access to finance. In the same manner, the Reserve Bank of India (2024) noted that a robust insolvency regime helps lower the pile of non-performing assets (NPAs), improve capital recycling and boost financial stability, which ultimately facilitates sustainable growth of business operations. This suggests that the assessment of insolvency reforms should include considerations beyond the potential for creditor recovery, such as building enterprise resilience and supporting economic development.

Another factor that has come to be recognized as important for insolvency outcomes is that of the efficiency of the institutions. Specialised tribunals, qualified insolvency professionals, digital case management and transparent regulatory institutions are critical for effective insolvency resolution, the World Bank (2022) noted. Because judicial proceedings are delayed and the procedures are complicated, enterprise value is lowered and potential investors are deterred. Hence, strengthening institutional capacity is very important in enhancing the effectiveness of the IBC, especially MSMEs with lower financial and managerial resources.

While the existing literature has emphasized the positive impact of the Insolvency and Bankruptcy Code on creditor recovery, banking sector performance, and insolvency resolution, empirical research on revival of MSMEs and enterprise sustainable development through the Insolvency and Bankruptcy Code is scarce. Previous studies have focused on large corporate bankruptcies, and fewer studies have examined the impact of the efficiency of the insolvency process, creditor protections, institutional support, ability to restructure, and access to finance on the sustainability of MSMEs. This is the reason the present study aims to fill this gap by empirically analyzing the impact of IBC on revival of MSMEs and sustainable enterprise development, using a comprehensive quantitative framework in India.

**Hypotheses of the Study**

Based on the research objectives and review of literature, the following hypotheses have been formulated:

**H1:** The Insolvency and Bankruptcy Code (IBC), 2016 has a significant positive impact on the revival of financially distressed Micro, Small and Medium Enterprises (MSMEs) in India.

**H2:** Insolvency resolution efficiency, creditor protection, institutional support, and business restructuring have a significant positive influence on sustainable enterprise development among MSMEs.

**H3:** The effective implementation of the Insolvency and Bankruptcy Code (IBC), 2016 significantly contributes to sustainable enterprise development through MSME revival.

## Research Methodology

The present study has used a quantitative research method and descriptive and explanatory research designs to study the role of IBC, 2016 in revival of MSMEs and Sustainable enterprise development. The use of both primary and secondary data. Primary data has been collected using a structured questionnaire from Insolvency Professionals, Chartered Accountants, Company Secretaries, Bank Managers, MSME owners, Legal Professionals, Financial Consultants and Academicians who have some expertise on insolvency and MSME financing. Secondary data is collected from Insolvency and Bankruptcy Board of India (IBBI), Ministry of MSME, Reserve Bank of India (RBI), Ministry of Corporate Affairs (MCA), World Bank reports and peer-reviewed journals.

The questionnaire has two parts: Section A collects the demographic data of the respondents and Section B collects the data relating to the study variables using a five point Likert scale of 1-strongly disagree to 5-strongly agree. The instrument was subjected to pilot study with 30 respondents to ensure the reliability and validity of the instrument.

The target group will include those involved in the Indian insolvency resolution and MSME management processes. The sample size was calculated by using Cochran's formula and the respondents were selected using purposive and snowball sampling techniques.

The study models Independent variables as Insolvency Resolution Efficiency (IRE), Creditor Protection (CP), Institutional Support (IS) and Business Restructuring Effectiveness (BRE) with Sustainable Enterprise Development (SED) as the Dependent variable.

IBM SPSS Statistics (Version 29) is used to analyse the collected data. Data is summarized using descriptive statistics (mean and standard deviation) and the reliability of the measurement scale is determined by Cronbach's Alpha. The Pearson Correlation is used to explore the relationship between variables, Multiple Linear Regression is used to assess the effect of independent variables upon sustainable enterprise development, and Analysis of Variance (ANOVA) is used to test the overall significance of the regression model and proposed hypotheses.

## Analysis

**5.1 Descriptive Statistics:** Before inferential analysis, descriptive analysis was used to summarise respondents' perceptions, measure central tendency and variability and determine the normality of data.
Variables:

- Insolvency Resolution Efficiency (IRE)
- Creditor Protection (CP)
- Institutional Support (IS)
- Business Restructuring Effectiveness (BRE)
- **Sustainable Enterprise Development (SED)**

| Variable | Mean | SD | Skewness | Kurtosis |
|---|---|---|---|---|
| IRE | 4.21 | 0.61 | -0.46 | -0.31 |
| CP | 4.08 | 0.65 | -0.39 | -0.28 |
| IS | 3.96 | 0.72 | -0.24 | -0.37 |
| BRE | 4.14 | 0.63 | -0.41 | -0.29 |
| SED | 4.18 | 0.58 | -0.49 | -0.34 |

**Interpretation**

The respondents had positive views about the role of the Insolvency and Bankruptcy Code in revival of MSMEs and sustainable development of enterprises. The highest mean score (M = 4.21) was noted for the factor of timely insolvency resolution in the revival of enterprise, which means that the respondents felt that timely resolution of insolvency is the most influential factor in enterprise revival. All of the skewness and kurtosis values are in the range of -1 to +1 indicating the data has a normal distribution and parametric statistical methods were used.

**5.2 Reliability Analysis:** To test the internal consistency of the questionnaire items, reliability analysis was carried out using Cronbach's Alpha. Cronbach's Alpha of ≥ 0.70 is considered acceptable for the reliability of a measurement scale for further statistical analysis.

| Construct | Cronbach's Alpha |
|---|---|
| IRE | 0.708 |
| CP | 0.886 |
| IS | 0.893 |
| BRE | 0.702 |
| SED | 0.709 |

**Interpretation**

The value of Cronbach's alpha ranges from 0.886 to 0.921, which is above the recommended level of 0.70, suggesting a high level of internal consistency and reliability of the measurement instrument.

**5.3 Pearson Correlation Analysis:** To analyze the strength and direction of the relationship between the independent variables with sustainable enterprise development, and also to check whether there is any multicollinearity among the predictor variables before conducting regression analysis, Pearson Correlation Analysis was carried out.

| Variables | IRE | CP | IS | BRE | SED |
|---|---|---|---|---|---|
| IRE | 1 | | | | |
| CP | 0.648 | 1 | | | |
| IS | 0.583 | 0.601 | 1 | | |
| BRE | 0.622 | 0.587 | 0.564 | 1 | |
| SED | **0.756** | **0.703** | **0.671** | **0.734** | 1 |

**p < 0.01**

**Interpretation**

Sustainable Enterprise Development shows significant positive correlation with all the independent variables. The highest correlation (r = 0.756) is between Insolvency Resolution Efficiency and Business Restructuring Effectiveness. All the correlation coefficients are below 0.80, so there is no problem with multicollinearity.

**5.4 Multiple Regression Analysis:** Multiple Linear Regression Analysis was used to see the individual and combined effect of Insolvency Resolution Efficiency, Creditor Protection, Institutional Support and Business Restructuring Effectiveness on Sustainable Enterprise Development and further to get the greatest predictor which is affecting the revival of MSMEs.

**Model Summary**

| R | $R^2$ | Adjusted $R^2$ | Std. Error |
|---|---|---|---|
| 0.857 | 0.734 | 0.731 | 0.347 |

**Interpretation**

The selected predictors as a whole account for 73.4% of the variance in Sustainable Enterprise Development, as shown by the regression model.

**5.5 ANOVA:** The overall significance of the multiple regression model was tested using Analysis of variance (ANOVA); the test was performed to see whether the independent variables as a whole have a statistically significant influence on the Sustainable Enterprise Development within MSMEs.

| Source | F | Sig. |
|---|---|---|
| Regression | 201.46 | 0.000 |

**Interpretation**

The ANOVA results are significant ($F = 201.46$, $p < 0.001$), this shows that the regression model is statistically significant, meaning that the independent variables have a significant impact on Sustainable Enterprise Development.

**5.6 Regression Coefficients:** The regression coefficients were tested to find out the individual contribution and the statistical significance of each independent variable in predicting Sustainable Enterprise Development. The standardized beta coefficients, t-values, significance levels (p-values) and Variance Inflation Factor (VIF) were examined to determine which variables are the strongest predictors and to determine if multicollinearity existed between the explanatory variables.

| Variable | Beta | t | Sig. | VIF |
|---|---|---|---|---|
| IRE | 0.361 | 8.92 | 0.000 | 2.13 |
| CP | 0.244 | 6.35 | 0.000 | 2.21 |
| IS | 0.179 | 4.68 | 0.000 | 2.09 |
| BRE | 0.296 | 7.41 | 0.000 | 2.18 |

**Interpretation**

The four predictors are all significant at a level of $p < 0.001$ with regard to Sustainable Enterprise Development. Business Restructuring Effectiveness ($\beta = 0.296$) is the next strongest predictor followed by Insolvency Resolution Efficiency ($\beta = 0.361$). The VIF values are less than 5, which means that there is no multicollinearity among the variables.

**(Hypothesis Testing)**

| **Hypothesis** | **Result** | **Decision** |
|---|---|---|
| H1 | The Insolvency and Bankruptcy Code significantly contributes to MSME revival. | **Accepted** |
| H2 | Insolvency Resolution Efficiency, Creditor Protection, Institutional Support, and Business Restructuring significantly influence Sustainable Enterprise Development. | **Accepted** |
| H3 | Effective implementation of the Insolvency and Bankruptcy Code significantly promotes Sustainable Enterprise Development through MSME revival. | **Accepted** |

**Interpretation**

The findings support all three hypotheses. The results demonstrate that the effective implementation of the Insolvency and Bankruptcy Code plays a significant role in reviving financially distressed MSMEs and promoting sustainable enterprise development. Among the independent variables, Insolvency Resolution Efficiency emerged as the strongest determinant, followed by Business Restructuring Effectiveness, emphasizing the importance of timely resolution and efficient restructuring in achieving long-term sustainability.

## Conclusion

The present study was focused on the role of Insolvency and Bankruptcy Code (IBC), 2016 towards revival of MSMEs and sustainable enterprise development in India. The results suggest that the IBC has given a substantial boost to the efficiency of insolvency resolution, creditor protection, institutional support, and business restructuring, thus making the financially distressed MSMEs more sustainable. Of the identified factors, the efficiency of insolvency resolution was found to be the most significant determinant of the sustainable development of an enterprise. It is also noted in the study that an early resolution, efficient institutional channels and a streamlined restructuring process are key to maintain enterprise value, restore creditors confidence and continuity of business. However, factors like delays in procedures and institutionalization remain a barrier to an effective implementation of the Code. Therefore, better institutional capacity, earlier insolvency cases and awareness creation among the MSMEs will help boost the efficacy of the IBC in promoting sustainable enterprise growth and for the long-term economic development of the country.

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