7. Conclusion

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This study is an attempt to understand and explain the possible determinants of corporate saving in India. Study provides insights on identified firm and macroeconomic level determinants of corporate saving, explains the key differences in the determinants of saving of firms in the manufacturing and services sector, and brings out the impact of 2007-8 financial crisis on determinants of corporate saving in India.

Lagged corporate saving, profitability, and GDP growth rate are the significant determinants that positively explain the changes in the corporate saving in both the sectors and remain robust to different estimation techniques. Global financial crisis 2007-8 had significantly affected corporate saving in India. Firms in both manufacturing and service sectors have displayed precautionary motives of saving during the post crisis period that witnessed heightened macroeconomic uncertainty. In the Indian context, firms are facing considerably high interest burden and high cost of borrowing that is reducing the firm level saving. This high financing cost acts as a double whammy for firms that on one hand make external funds costly and on the other, reduce their internal funds.

This study found that macroeconomic factors have played an important role in both pre-crisis and post-crisis periods, however, they are found to be more prominent in the post-crisis period. Results suggest that, rising public debt to GDP increases concerns of crowding out in the pre-crisis period and hence corporates might have saved more because there was relatively less availability of credit. High GDP growth rate supported with moderate and stable inflation rates led corporate to save high during the pre-crisis period. Post crisis, slower GDP growth constrained firms to save less. Results suggest that financial deepening reduces
the corporate savings as firms can depend on credit markets rather than internal accruals to finance expansion.

### 7.1 Contributions of the Study

The study provides following contributions to the existing economics and corporate finance literature. Firstly, it contributes by bringing out the firm level and macroeconomic level determinants of corporate saving for an emerging economy like India. Earlier, there have been other studies in the Indian context that involved only firm level variables (Bhole & Mahakud, 2005; Jangili & Kumar, 2011). This study contributes by using the holistic definition of corporate saving as retained earnings plus depreciation adjusted by non-operating surplus/ deficit and by providing a comprehensive and integrated view for the possible determinants of firm-level saving using a much larger dataset for the Indian context by employing the dynamic panel data analysis. Earlier studies have used either retention ratio\(^{33}\) or cash\(^{34}\) based definition to capture corporate saving.

Secondly, this study contributes by bringing out the key differences in the determinants of corporate saving for manufacturing and services sector firms. IMF study (2006), Horioka and Terada-Hagiwara (2013) and Ozmen et al. (2012) examined the industry level differences of corporate saving by using industry dummies but have not considered separate sectors. This study brings out the differentiating factors between manufacturing and service sector by controlling the given size and financial constraints of each firm.

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\(^{33}\) Retention ratio does not account for other cash items such as depreciation.

\(^{34}\) Cash is defined as a subset of the total saving in a firm (Love, 2011) where saving is a function of both financial and physical assets. Also cash based definitions are incapable of capturing the core operating activities of a firm in its current state. For assessing the current state of a firm it becomes important to adjust the retained earnings by noncurrent income and expenditures.
Another contribution of this study is that it clearly identifies the impact of 2007-8 global financial crisis. There are studies in cash-holding literature, such as those by Horioka and Terada-Hagiwara (2013) and Sun and Wang (2015), which have attempted to identify the impact of the crisis on firm level cash holding by including a dummy variable but none of the studies has checked the same for corporate saving.

This study draws from the literature on aggregate national savings (Loayza et al., 2000; Grigoli et al., 2014) and contributes to the literature on corporate saving by suggesting that (a) firms do follow the dynamic persistence in their saving behaviour in India (b) identifies some macroeconomic variables that significantly affect firm level corporate saving in India.

7.2 Limitations and Directions for Future Research

There are a few limitations for this study. Firstly, the study includes only listed firms. Secondly, the study has considered only quantitative variables. However a large number of qualitative variables such as, management’s ability and efficiency to manage saving, and corporate culture might influence the level and growth rate of corporate saving. Thirdly, this study did use a few macroeconomic variables but there may be other variables related to legal, political, and other regulatory norms, that may affect firm level saving. Fourthly, this study has examined only broad manufacturing and non-financial services sectors. Further disaggregation into sectors such as capital goods, consumer durables, pharmaceuticals, IT enabled services, etc. may throw up interesting results.

This research can be expanded by examining public sector enterprises (listed and non-listed). For future research, linkages between corporate governance (like group affiliation,
firm- political connections, ownership structure, managers/ CEO compensation etc.) and firm saving may be explored. Also, association of corporate restructuring (divestitures, spin-offs, mergers & acquisitions) with corporate saving can be examined. That can be followed by a competition analysis in select sectors by examining (from the strategic perspective) the effect of competition on corporate saving (financial slack). On the macroeconomics front, composition of overall saving is changing so we may explore whether there is a prevalent substitution effect of household saving for corporate saving. The study may be expanded to other emerging markets (Asian economies) for a broader understanding of the phenomenon.