

The missing middle phenomenon in Indian manufacturing sector: Myths or realities?

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Abstract

Purpose: This study attempts to examine the missing middle (MM) phenomena in the context of the Indian manufacturing sector using the unit level information from the database of Ministry of Corporate Affairs, Government of India.

Design/methodology/approach: Unlike the previous studies, the present study first bifurcated the missing enterprises into two categories such as “permanently” dropped and “reappeared,” in order to pursue a meaningful analysis and derive conclusions with policy insights. Various financial indicators were used to explain the causes of MM phenomena during 2009–2010 and 2016–2017, in a logistic framework.

Findings: The study found that profit margin ratio is higher for the group of medium sized enterprises which continued in comparison to the units which dropped out permanently. Similar is the case with the ratio of investment turnover. The econometric results, however suggest that the relationship between the chances of a firm being dropped out and financial indicators is weak as the coefficients of various financial indicators are found to be statistically significant only for a few years.

Originality/value: The study suggests that the missing middle phenomenon is not a myth in India as very large number of medium-sized firms have been disappearing from the market over the years. Based on firm level data it identifies the factors which resulted in such a phenomenon.

Keywords: Missing middle, Manufacturing sector, India

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