The shadow of death: can efficiency measures forecast firm crisis? Evidence from a nonparametric approach

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Background

Why is it that you white people developed so much cargo, but we black people had little cargo of our own?
Jared Diamond (1997): ***Guns, Germs, and Steel: The Fates of Human Societies, p.14***

The paper discusses on of the most important questions in economics – why some firms prosper and thrive, while other fail?

The model considers the quality of infrastructure, effectively differentiating between the North and the South of Italy.

It uses propensity score matching to find existing agrifood companies in Italy that are similar to those that failed in terms of region, economic activity and revenues in 2009 and then looks at firm productivity to explain the survival or failure of a company.

Interesting findings I

the managerial efficiency, the conditional efficiency and the technical efficiency have positive and statistically significant coefficients. The positive signs indicate that – net asset and other factors being constant – the more inefficient a company was (from all points of view), the more likely it was to fail. p.10

which is as it should be, as the ancient economic wisdom teaches us:

A man grows rich by employing a multitude of manufacturers: he grows poor by maintaining a multitude of menial servants
Adam Smith(1776): The Wealth of Nations, p. 330

BUT

conditional inefficiency (efficiency that accounts for the Infrastructural Index) has a stronger impact than the managerial inefficiency p.10

This directly links firms survival to the development of infrastructure in the region where they are located; if it falls behind, even well run firms can perish. This is indeed an important point, which to me is a "selling point" of the article

Interesting findings II

Furthermore:

We can see a U-shaped distribution: with small values of infrastructure, we can see a significant heterogeneity but with a light negative effect. When the Infrastructural Index increases ... we notice a positive effect. (p.8)

This seems related to a standard J-curve known from political economy of reforms. Improving the business environment is likely to make things worse by killing some firms that learned to survive in the „swamp" before further improvement makes things better.

Suggestions

The paper focuses on the presentation of the econometrics side, which tends to be elaborated in detail followed by very brief presentation of the results of empirical application. The story gets hard to follow. Consider concentrating the econometrics in a "modeling" section followed by presentation of results without too much technical jargon for readers interested in your substantive findings.

Consider providing more information about the design of your empirical application. Why do you look at the agrifood firms in Italy in particular? What does the literature say about the topic so far? What were your expectations when running the analysis and what is your contribution to the literature?

Methodological caveat: You write: *The Cox model, which has been used extensively in biomedical applications, has not been previously employed in the finance literature* but a simple Google search produces highly cited papers using the Cox model to predict for example bank failures going all the way back to the 80s. Strong statements are best avoided, particularly when they are inaccurate.