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Ms. Ref. No.:  RESPOL-D-18-00168
Title: Influence of Economic Crisis on the Performance of Incubated Companies: the Israeli Case
Research Policy

Dear Mr. Ben Reuveni,

We have now received 2 referees' reports on your paper, copies of which I enclose for your information.

As you will see, the referees make various comments and criticisms and all conclude that the paper is not suitable for publication in Research Policy.

None of them recommend even R&R (revisision and re-submit).

We do hope however that you will find the comments useful for your future research.

Yours sincerely,

Keun Lee, Ph. D.
Editor
Research Policy

Reviewers' comments:

Reviewer #1: This paper attempts to explore how the access of entrepreneurs to funding and the performance of startups in Israel are affected by financial crises. To this end it considers different funding sources for start-ups, namely venture capital (VC) and technological incubators. The main findings according to the authors imply that (a) VC funds are more prone to be affected by financial crises compared to technological incubators, (b) startups that are incubated during crises periods seem to lag in terms of performance compared to their counterparts incubated during non-crises periods, and (c) at times of crisis entrepreneurs in Israel may choose to delay new venture operations and seek alternative channels.

The paper addresses interesting research questions but it suffers from serious problems since it lacks theoretical framing and the core arguments are not supported with the use of sound logic, contemporary theory, or persuasive argumentation. For example, the authors treat VC industry and incubators as competitive and substitutive channels but this is not supported by any theoretical concept and thus may not be the case. In particular, are there any restrictions for start-ups in using both channels as complementary financial tools? Also, the argumentation about the VC is not consistent with the methodology used that explores the performance of the start-ups that have entered the incubator program in times of crisis comparing to their counterparts. Furthermore, the authors do not take into account that the crisis per se may increase the inherent risk in start-ups meaning that the same business may be less promising in crises times.

A further central point concerns the explanation of results which is inadequate and it is not supported by existing evidence. In fact, there is a concern that the authors jump to implications and conclusions without proper argumentation. At the moment, empirical work cited in the text is rather limited and it is not clear what we expect to find. Although the authors argue that they use hypotheses (some references are made in pages 16-17), there is no formulation of hypotheses anywhere in the manuscript. Adding hypotheses may help but I certainly feel the analysis requires a clearer conceptualisation of the key relationships among financial crises, start-ups performance and access of them to venture capital and technological incubators.

In addition, I have several concerns about the conceptualization of the variables, the empirical modelling and more generally the methodology used.
- The authors form the empirical models without explaining the choice of the variables used. They use as independent variables those being considered as dependent variables in other models they examine. What is the rationale behind of this choice? Do the authors want to test the direction of causality relationships among specific examined variables?
- The authors say that the examined variables capture performance measures of incubator graduated firms (pages 11 and 12). But does it make any sense to examine the impact of firm performance variables on other proxies of firm performance? Also, are there other studies that treat exit as an indicator for performance?
- In addition, the authors do not adequately describe how they address common measurement and scaling issues in defining the variables used in the models. For example, do the authors measure employees in natural logarithms (which is a common practice for scaling reasons)? The number of employees is just a proxy for firm size. Firm growth of employees is a well-known performance indicator. Are other variables measured in ratios, changes, Likert scales etc? In general, my problem is that the authors do not provide any information for measurement issues of variables and the variables used are not adequately conceptualized.
- Also, the correlation matrix of the examined variables in table 4 indicates that possible multicollinearity problems may exist in the empirical analysis, since a number of correlation coefficients are very high (>40% in most cases) apart from the three ones (IPO, market value, volume raised) that the authors have already excluded from the analysis. In this respect, VIF tests should be performed in order to check for potential multicollinearity problems.
- The regression model has been applied to two different parts of the whole sample in order to undertake a comparative analysis which does not seem to be correct, or at least adequately justified. In order to explore if the firms that entered the incubator program in times of crisis benefited more than their counterparts, a dummy variable could be added in the regression model for the whole sample, indicating those firms that participated in the incubator program.
- Also, the authors should adequately argue on the choice of the empirical models under examination. Moreover, I would expect the empirical models under examination being expressed in equation forms, which is more or less a common practice in econometric analyses.
- Moreover, sector dummies should be included in the regression models in order to take into account potential sector activity heterogeneity among the examined companies.
- Particular emphasis is placed on the survival of start-ups in one model. However, the regression method used is not preferable for survival analysis. If the authors consider more appropriate methods, such as, for example, box-cox regression models then this could significantly add value to the paper.
- Regarding the tests used for comparing between crises and non-crises periods the authors use t-test in most cases. In this respect, do the variables used follow a normal distribution? If this is not the case, then the authors should prefer non-parametric tests like Wilcoxon tests.

Moreover, it is not clear from reading the paper --and especially the introduction and conclusion sections-- to where the authors want to exactly contribute. Discussing other papers that examine alternative financial sources of start-ups could provide a clear picture for the novelty of the paper in the related literature.

Finally, the paper suffers from limitations in terms of presentation, language and structure. It is not clearly written since a number of sentences and points are very confusing and some editing in English is necessary, while the majority of tables are hard to follow given the discussion of the results in the paper. Also, it is not well structured. For example the research questions should be included in the introduction section and not in section 6 of the literature. What is more, in the future research section the authors provide some tests that they have performed considering locational differences. It is not a common practice to suggest future research and at the same time to provide results on the basis of these research directions as part of the analysis. Again the  graph in the concluding remarks should be transferred in another section. Also, a data section should be included to provide the description of datasets and the variables used. The discussion of results and
conclusions are presented in a joint section. Discussion of results should be in a separate section, while conclusion could be merged with further research and policy implications. In general, there is material put in wrong sections and places throughout the manuscript at the expense of the readability of the paper. Thus I am afraid the paper needs a good editing and almost a total rewriting by organizing information for readers in the right sections.

Reviewer #2: Review for Manuscript RESPOL-D-18-00168

The paper 'Influence of Economic Crisis on the Performance of Incubated Companies: the Israeli Case ' aims to study 'whether the negative effect of economic crises on the ability of Venture Capitals to invest in startups is affecting technological incubators performance as a substitute financing tool for some startups'.
In general, the idea of the paper is appealing and could bring a contribution to the literature. In fact, I started to read it with great interest. However, the paper in the current format it is not suitable to be published in Research Policy.
I have tried to be positive and to see how the paper could be improved but the main problem is the way in what is presented. The introduction (that is repeated) should justify better the interest of the study of the topic. Moreover, it could explain how the paper is going to be presented.
The review of the literature seems to be mostly focus in Israel. I like the idea of separate the issues to review in the literature but the authors mostly do a description of what have happened in the last twenty years with the venture capital investments. I miss a review that would support the theoretical framework of the analysis that they want to perform.
It is very strange to find as part of the literature review (sub-section 6) the 'Research question'.
The methodology section only say some words about the sample and the following sentence 'A regression model will be used to perform statistical tests and predictions.'
There is no model of models described. In page 19, the authors present a section titled 'Regression model' but results totally confusing.
Findings are mixed with the methodology.
The authors should check the references. I would recommend to use less footnotes.
In summary, I think that the authors have a good idea with potential but they have a lot of work to do to present it in a way that could be published.