

An extended abstract of

**INTERNATIONAL EXTERNAL KNOWLEDGE, HOME COUNTRY
INSTITUTIONS AND INNOVATION OF FIRMS FROM TRANSITION
COUNTRIES**

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An extended abstract of “International external knowledge, home country institutions and innovation of firms from transition countries”

In this study, we analyze how the acquisition of international and domestic external knowledge contributes to the innovation performance of firms in transition economies and how the institutional conditions of the home country may affect these relations. These aspects are particularly relevant in the former communist bloc, where institutional problems related to volatility, political risk, corruption and other factors may still exist (Krasniqi and Desai, 2016) and continue to affect business decisions (Bruton et al., 2014). To perform our analysis, we use data on 710 firms from 18 central and eastern European countries (CEE) obtained from the Business Environment and Enterprise Performance Survey (BEEPS).

The study allows us to contribute to two streams of research. First, we contribute to the discussion on innovation management in transition contexts by analyzing the relation between international and domestic external knowledge sources and the innovation performance of firms in transition economies. Much of the literature analyzing the role of external knowledge on innovation focuses on developed countries (Cassiman and Veugelers, 2006). In contrast, research in more challenging environments for innovation such as former communist countries in transition remains limited (Crowley and McCann, 2018; Krammer, 2009). Second, we contribute to the literature on institutions by analyzing how institutional development affects the relation between external knowledge and innovation. Then, we advance in the research stream that examines the impact of institutional conditions on firm competitiveness (Krammer, 2019; Shinkle and Kriauciunas, 2012). We also respond to the call in recent literature to explore the role of formal institutions in moderating knowledge spillovers from foreign direct investment (FDI) and their potential outcomes (Perri and Peruffo, 2016).

Our findings show that both external knowledge sources –domestic and international- contribute positively to the firm’s number of new products in transition economies and that country’s governance imperfections positively moderate the relations between both domestic and international external knowledge and the firm’s number of new products. Additionally, the benefits of international external knowledge for firms’ product innovation are greater in contexts with weaker institutional conditions than in environments with stronger institutional conditions. In contrast, the benefits of domestic external knowledge for product innovation do not vary substantially between scenarios with stronger institutional conditions and those with weaker ones. Our findings allow us to reach conclusions and recommendations that are useful to practitioners and policy makers who seek to boost the innovation performance of firms in transition countries with different levels of institutional development.

Keywords:

Innovation, External knowledge, Institutional development, Transition economies

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