Innovation, Governmental Support and Performance

Evidence from Eastern Europe

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Abstract

According to the Oslo Manual, innovation may be of four types: product innovation, process innovation, organizational innovation and marketing innovation. All these different types of innovation need different processes and conditions to succeed. However, the academy strongly agrees that partnerships with other organizations are important to the develop of innovation of all types nowadays. The main goal of this study is to find the relevance of one type of partnership, the relationship with the government, in the development of the four types of innovation and how each type of innovation affects the firm's economic performance in companies of two different groups of Eastern Europe Countries and Ex-Soviet Republics: the countries that joined the European Union (EU), also called here as ECEUs; and the countries that are out of EU, here called as ECNEUs. Using a sample of manufacturing small and medium enterprises (SMEs) from the World Bank's Business Environment and Enterprise Performance Survey (BEEPS), this paper found that ECEUs' manufacturing SMEs have a higher absorptive capacity and get advantage from EU innovation promotion programs to innovate. However, the firms from the ECNEUs perceive a quicker effect of the innovations in the financial performance since there is a technological gap between the first and the second group, which is less developed. The paper also found that the introduction of different types of innovations simultaneously may boost the performance of ECNEUs' firms in the short run.

Keywords: Innovation Performance; Government; Financial Performance; Eastern Europe; European Ex-Soviet Republics