

DO INSTITUTIONS AFFECT INNOVATION? A CROSS-COUNTRY INVESTIGATION

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This paper investigates the relationship between institutional quality and firm innovation performance by analysing microdata of about 28,000 enterprises located in transition and comparator countries over the period 2018-2020. The hypothesis is that propensity to innovation is primarily determined by firm characteristics, but also strictly related to the national institutional context which crucially contributes to shape the attitude of enterprises toward innovative activities. In particular, we first test the importance of the rule of law, i.e. the most comprehensive dimension of the institutional environment, and then check the robustness of our results by considering other specific institutional aspects, such as corruption, political stability and law enforcement. The econometric investigation confirms the importance of institutions for the firm propensity to innovate.

Moreover, by assessing the impact of firm characteristics in good and bad institutional environments, we conclude that institutional quality and *some* individual capabilities interact as substitute factors: when the institutional context is poor, individual features matter more. In particular, firm international opening turns out to be a key characteristic to ensure a good performance in innovation even when institutional quality is low. Consistently, good institutions confirm to play a central role for firm innovation and countries growth, allowing even less capable enterprises to successfully innovate.