Abstract

This dissertation deals with topics related to innovation, management quality, political economy and corruption. In Chapter 1 (which is co-authored by Martin Srholec), we econometrically test the hypothesis that pre-crisis innovation affected firms' survival odds and performance thereafter using a unique micro dataset of shareholding companies from emerging countries in Eastern and Southern Europe derived from the World Bank's Enterprise Surveys. Overall, the results indicate that the innovation-survival connection holds. Nevertheless, firms identified as those that innovated excessively before the crisis turned out to be far more likely to die, whereas cautious innovators came out better off. Firms that stretched their resources too much, or that were too bold, faced dire consequences. If an appetite for risky innovation is sociably desirable and the crisis weeds out viable businesses, including those that may drive the recovery, there is a role for public policy to mitigate the short-lived selection inefficiencies that proliferate during severe recessions.

In Chapter 2 we study the impact of management quality on the innovation input and output of firms in ten emerging countries using data from the Management, Organization and Innovation (MOI) Survey. We find the effects of management quality on the decisions of firms to invest in R&D hold for both EU and non-EU emerging countries. An improvement in management quality from the 25th percentile to the median is associated with a 3.3 percentage point increase in the propensity to invest in R&D. Furthermore, there are positive but weak effects of management quality on product innovation. The empirical results for individual management practices show that the quality of incentive management is intimately connected with innovation performance. The quality of monitoring management is related to higher inputs into innovation, but not to innovation output. The quality of incentive management is related to higher input into innovation, but not to innovation output. All results hold after controlling for differences in management quality by industries. Additional analysis of management quality asymmetry shows that the results are driven mainly by firms with low quality management.

In Chapter 3 (which is co-authored by Dmitriy Vorobyev) we study the topic of political budget cycles in which opportunistic politicians systematically adjust public policies prior to elections to attract a higher number of votes. We show that the corrupt behavior of politicians also follows certain patterns which are driven by electoral cycles. Based on Business Environment and Enterprise Performance Survey data, exploiting variation in the dates of surveys and in the length and starting date of Russian regional governors' terms, we find that corruption levels, as perceived by firms operating in different regions of Russia, increase closer to the expected expiration date of a regional governor's term. We argue that the Russian political system allows governors to accumulate private information about their likelihood of remaining in office for another term. Therefore, they know well in advance of elections if they will continue in office for the next term. We suggest that the accumulation of such information may serve as an explanation for the observed pattern of perceived corruption: if a governor gradually learns that he will not be re-elected once the current term has expired he has increasing incentives to engage in corrupt activities to accumulate wealth before he leaves office. We formalize this idea with a simple empirical model and test it. We find that in regions where incumbent governors are less likely to remain in office for the next term, corruption increases over their terms, while in regions where governors are more likely to remain in office, perceived corruption follows a decreasing trend.