Abstract

This thesis examines the role of competition and innovation for firm performance, particularly during financial crises, through empirical analysis. The thesis first reviews the literature related to competition, innovation and financial crises. It next provides context of the economic legacies the transition economies in Central Europe have shared and how these legacies meant a lack of an environment for competitive firms (to operate most efficiently) and innovation (defined as new product development). Similarities and differences between the economies of the Czech Republic and Slovakia (which have a shared history over seventy years as Czechoslovakia) during the transition period and leading up to the 2009 financial crisis are reviewed, with attention to factors affecting the competitive and innovative environment in each country. Using cross-sectional regression analysis and comparing results for Czech and Slovak firms, this thesis confirms the positive influence of innovation and competition. Two variables for competition types are used in the regression – one for foreign pressure and one for domestic pressure. Both sets of firms indicate a positive influence of foreign competitive pressure to develop new products on firm performance (which is represented by firm sales in this analysis), although to varying degrees and significance levels. For both Czech and Slovak firms, competitive pressure to develop new products originating from domestic firms does not have a significant role for firm performance in the year 2009. In sum, since the analysis utilizes data for the year 2009, this thesis has additional policy implications and lessons for firms to operate effectively under crisis conditions, in addition to implications for how governments can intervene to support their domestic firms in more strongly and effectively responding to competitive pressure.

Key words: foreign competition, domestic competition, innovation, product development, transition economies, entrepreneurship, financial crisis