

## **Innovation capabilities of firms in selected countries in Central and Eastern Europe (CEE) and their participation in global value chains (GVC)**

The aim of the project is to analyze the relationship between innovative capabilities and internationalization strategies of companies operating in selected countries of Central and Eastern Europe (CEE).

Companies from different countries not only trade in goods and services, but also work together as parts of vertically integrated production systems, sharing projects, techniques, managerial practices, as well as tools and techniques that raise productivity. As a result, global value chains (GVC) offer the possibility to learn and transfer knowledge at a higher rate than in traditional international trade, in which only final goods were the subject of transactions. Participation in GVC is also possible through indirect exports of products and components. Recent studies document the growing share of companies from Poland and other CEE countries in GVC.

In the proposed project, we intend to examine, among others (i) whether companies with better innovative capabilities are more likely to enter foreign markets (ii) if a higher degree of internationalization of the company is associated with more advanced management practices, (iii) what is the role of foreign partners in the development of companies' innovation capabilities, (iv) what forms of internationalization of companies increase their innovative capabilities, (v) which companies export indirectly and does it create an opportunity for wider participation in GVC.

The proposed project combines two strands in the literature: innovation research and a new theory of international trade with heterogeneous companies. In particular, the term 'firm capability', originally used by strategy and innovation researchers, has now been adopted by the mainstream economics, where it is defined as part of a production process that cannot be bought on the market, and therefore the company must learn and accumulate them (Sutton 2012). This concept fits the models of heterogeneous firms of the new trade theory, initiated by Melitz (2003) and continued by other economists. The combination of these two approaches increases the added value of the proposed project.

The project will exploit the properties of two firm-level databases: the Community research on innovation (CIS), developed by Eurostat and the BEEPS V database developed by the World Bank. Based on these, among others, we will estimate the relationship between innovation capabilities, internationalization and management practices, the relationship between the scope of innovation and cooperation with foreign partners, and the determinants of indirect and direct exports.

The implementation of the project should enable the formulation of policy recommendations. In particular, it will be possible to determine what specific forms of internationalization of companies can have a significant impact on their innovative capabilities in Poland and other CEE countries. In addition, it will be possible to clarify whether the exporters, subsidiaries of foreign companies or parent companies of foreign companies - show better management practices and whether such companies are more willing to accumulate innovation capabilities. Moreover, we will also be able to give recommendations concerning indirect exports. In particular, it will be possible to formulate suggestions on how to increase the innovation capabilities of firms through internationalization and how indirect exports can lead to more active participation of firms in CEE countries in global value chains.