The aim of the paper is to investigate the factors impacting innovation performance of foreign-owned and domestic firms in three regions of Ukraine. Special attention is laid on the inter-firm cooperation between domestic and foreign-owned firms, their absorptive capacity and the role of the local institutional environment in selected regions of Ukraine, namely close to the Western border Lviv region, close to the Eastern border Kharkiv region and the capital region Kyiv. Foreign firms are the subsidiaries of multinational enterprises (MNEs) located in the target regions of Ukraine. An enterprise survey of 305 domestic and 153 foreign firms within two sectors, i.e. machinery and equipment sector and food and beverages sector, was conducted in these regions. The paper empirically analyzes the primary data of the enterprise survey, with the focus on the assessment of the innovative performance of survey firms. The impact of such factors as absorptive capacity of survey firms, the way foreign and domestic firms cooperate and their perception towards local institutional quality on the innovation behaviour of firms is analyzed. The paper introduces a thorough conceptual framework together with a detailed discussion of the empirical results, followed up by some policy implications.