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Divya Sebastian
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Invention Value, Inventive Capability and the Large Firm Advantage

Divya Sebastian will present findings from her paper, "Invention Value, Inventive Capability and the Large Firm Advantage" co-authored with Ashish Arora, Wesley Cohen and Honggi Lee.

Abstract: The literature on increasing concentration and the rise of superstar firms importantly turns on the question of whether large firms innovate more because they get a higher private value from their inventions or because they are better at invention. We find that inventions of large firms are privately more valuable, but are of lower-quality on average. We develop and test a simple model to differentiate between two explanations for a size premium --- appropriability and inventive capability. The appropriability advantage enables larger firms to derive more value from an invention of given quality by leveraging their superior commercialization capabilities. Other capabilities that large firms may possess enable them to be more productive in inventing. The model predicts that if appropriability is more important than inventive capability, then average quality is negatively related to firm size. In contrast, average quality is positively related to firm size if inventive capability is more important. Using a sample of publicly listed US firms from DISCERN, we find that the size premium is principally due to an appropriability advantage, and weakens in industries more active in markets for technology, and where firms can access external commercialization capabilities.



DATE

January 19th

TIME

6.00-7.00 p.m.