Invention Value, Inventive Capability and the Large Firm Advantage

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Do large firms produce more valuable inventions, and if so, why? After confirming that large firms indeed produce more valuable inventions, we consider two possible sources: a superior ability to invent, or a superior ability to extract value from their inventions. We develop a simple model that discriminates between the two explanations. Using a sample of 2,786 public corporations, and measures of both patent quality and patent value, we find that, while average invention value rises with size, average invention quality declines, suggesting, per our model, that the large firm advantage is not due to superior inventive capability, but due to the superior ability to extract value. We provide evidence suggesting that this superior ability to extract value is due to greater commercialization capabilities of larger firms.