Managing Innovation in Firms

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Abstract

Most innovation occurs inside firms, yet little is known about the organizational forces that shape it. We study the role of managers in within-firm innovation using uniquely rich administrative data from a global manufacturing firm that tracks workers' ideas from invention to patenting and commercialization. Exploiting quasi-random manager switches across teams, we show that managers with hands-on invention experience substantially increase both the quantity and quality of workers' innovative output. Within four years of the switch, moving from the average manager, who has no experience, to a highly-experienced manager approximately doubles workers' production of patented inventions. We also find positive effects on patent citations and commercialized inventions, showing that these effects extend beyond patent counts to also reflect technological impact and economic value. Our evidence suggests that managers raise the innovation capability of incumbent workers. Close collaboration transmits know-how, especially in areas farther from workers' expertise, after which workers become more able to invent independently. We also show that experienced managers foster a work environment more conducive to experimentation and idea development.

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