

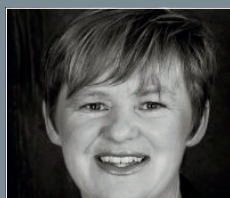
Driving Firm-level Innovation: The Role of Policy and Human Resource Practices to Enhance the “Soft Side” of Human Capital

Authors:



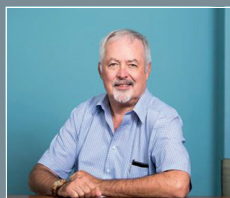
Professor Helena Lenihan
Dept of Economics, Kemmy
Business School, University of
Limerick

helena.lenihan@ul.ie



Dr Helen McGuirk
Dept of Management & Enterprise,
Cork Institute of Technology; and
Dept of Economics,
Kemmy Business School,
University of Limerick, Ireland

helen.mcguirk@cit.ie



Professor Kevin R. Murphy
Dept of Personnel and Employment
Relations, Kemmy Business School,
University of Limerick

kevin.r.murphy@ul.ie

Summary

The purpose of this research is to study the drivers of firm-level innovation (particularly relevant for SMEs) through a combination of public policy and human resource practices that enhance the ‘soft side’ of human capital (e.g. job satisfaction and willingness to change). Our findings highlight the need to consider the role of private and public investment to support the intangible elements of human capital as a driver of firm-level innovation. To this end, we propose a new policy programme offer to support such human capital in order to increase firms’ innovation activity.

Research Study Overview

The context of our study is firms in Ireland. Seen as key to innovation, we focus on employee-managers. We argue for the importance of creating a firm-level culture that hones human resource systems, thus promoting innovation. Our key research questions are as follows: what type of firms (internal factors such as work arrangement and practices) employ managers who exhibit ‘soft side’ human capital attributes, such as job satisfaction, attitude to work and willingness to change, that are believed to support innovation?; what type of regions (external factors) are such firms located in?; what mix of policy instruments can effectively promote the development of these intangible human capital attributes?; and what role should firms play in developing such elements of human capital?

While many innovation policy instruments are financial in nature and others focus on firm management strategy and improving

productivity, innovation policy focused on human capital, particularly, its intangible elements, is notably lacking. We also compare the situation in Ireland to other countries.

Project Findings

Through employing information retrieved from a unique and comprehensive firm and regional level merged dataset and conducting extensive analysis, the research has three main findings:

1. We find that employee-managers with intangible elements of human capital such as job satisfaction and willingness to change are more likely to be found in firms with particular human resource systems such as work arrangements and work practices. Our findings suggest the importance of building firm-level capabilities in support of innovation activity.

2. Our research highlights the need to consider the role of private and public investment to support the intangible elements of human capital is a driver of firm-level innovation. We affirm the call for a greater focus on broad levels of the more important non-R&D components of innovative activity, and policy discussion on the kind of innovation capability that is created and accumulated. Our research suggests that public policy can support the 'soft side' of human capital both directly and indirectly. A total overhaul of current programmes is unnecessary; instead, policy should recognise the value of the intangible elements of human capital and the importance of human resource systems in its development. Market and systemic failures may also justify public support for such human capital.
3. We propose a new policy programme offer (which we title InnovativePeople4Growth) to support the intangible elements of human capital in order to increase firms' innovation activity. Given the benefits outlined, we suggest that firms and policy makers invest jointly in *InnovativePeople4Growth*.

Implications

Our findings indicate that firms will benefit by investing in the intangible elements of human capital and its work arrangements and practices (internal supports). This will in all probability result in managerial implications for firms. The practical managerial implications would point towards the need for managers to explore the management of the 'soft side' of human capital through a variety of strategic human resource systems to stimulate its capability in supporting such human capital.

However, policy intervention may be necessary to overcome firms' perception of blocking mechanisms (e.g., market/systemic failures) and stimulate investment in the intangible measures of human capital. In all likelihood, then initial 'push' will need to come from policy. Additionally, there is a role for government in putting the intangible elements of human capital on the agenda, and in stimulating and helping to coordinate the activities of firms. The optimal solution may lie in private and public sector co-development of programmes that drive and support the intangible elements of human capital. Such co-development may make policy development more difficult, but result in more effective policy.

Acknowledgements:

This research was in part funded by seed funding from the University of Limerick and also funding from the Irish Research Council (IRC postdoctoral fellowship funding for Helen McGuirk which was carried out at the Department of Economics, Kemmy Business School, University of Limerick).

For a copy of the most recent version of the paper relating to this research, please email: helena.lenihan@ul.ie.

An earlier version, presented at the Regional Studies Association European Conference, Izmir Turkey in 2014.

A related article: McGuirk, H., Lenihan, H. and Hart, M. (2015). Measuring the impact of innovative human capital on small firms' propensity to innovate, *Research Policy*, 44(4), 965-976.

SME Management Development Insights is a collaborative initiative from Skillnets and Dublin Institute of Technology. Each Insight is based on academic research relevant to Irish SMEs and is intended to communicate the key implications, insights and recommendations of this research to a wide SME readership, providing opportunity for the research to contribute to improved decision making, practices and policy development for Irish SMEs.

For further information the Series editors are Dr Lorcán Ó hÓbáin of Skillnets (l.obain@skillnets.com) and Paul O'Reilly of the Dublin Institute of Technology (paul.oreilly@dit.ie).



Skillnets
5th Floor, Q House, 76 Furze Road,
Sandyford, Dublin 18, D18 E268.
TEL +353 1 207 9630
EMAIL info@skillnets.ie
www.skillnets.ie



Skillnets is funded from the National Training Fund through the Department of Education and Skills.