

Improving Competitive Advantage through Talent Management, Local Wisdom and Innovation (Case Study in SMEs South Bandung)

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Abstract: Research on Local Wisdom, Innovation and Talent of Management on SME Competitiveness by using quantitative approach and survey method. The sample of the research is 61 people. Data were collected using questionnaires with Likert scale 1-5. The data analysis technique is Generalized Structured Component Analysis. The results of this study prove that: 1) the Local wisdom has direct and positive impact on competitive advantage of SMEs, 2) innovation has direct and positive impact on the competitive advantage of SMEs, 3) Talent Management has directly and positively impact on competitive advantage of SMEs, 4) Local Wisdom has direct and positive impact on Talent Management, 5) Innovation has direct and positive Affect onTalent Management, 6) Local Wisdom has direct and positive impact on competitive advantage of SMEs through Talent Management mediation, and 7) Innovation has directly to competitive advantage of SMEs through Talent Management.

Keywords: Local Wisdom, Innovation, Talent Management, Competitive Advantage, SMEs.

INTRODUCTION

The condition of business competition that full of dynamics, uncertainty and complexity requires SMEs to improve its strategy to exist in the business world. In addition, the company is also expected to create added value for competitive advantage.

Increased competitiveness can be done by making product and service innovation, human resource development, technological improvement and expanding the marketing area. With regard to Human Resources (HR) if the company can manage well it will increase productivity and profitability.

Talent management is important in the management of human resources in the company. Several previous studies have confirmed that Talent Management is essential in business organizations [1-3]. Talent management is also one of the advantages in business competitiveness [3]. Talent management in Small and Medium Enterprises (SMEs) has its own specific model, for example, according to research Baublyte [4] does not require formal talent management procedures because of the high level of flexibility in its business. Facing the business globalization also required quality talent for business sustainability [5-7].

Currently, the talent competitiveness of countries in the world is measured by Global Talent Competitive Index (GTCI) conducted by The Adecco Group and Human Capital Leadership Institute of Singapore (HCLI). They measure how developing countries attract and retain talent; provide a source for

decision makers to develop strategies to improve the competitiveness of their talents. Switzerland and Singapore ranks 1 and 2 in talent competitiveness. In his report also mentioned that the impact of technological change on the competitiveness of talent, on the grounds that while work at all levels continue to be replaced by machines, technology also creates new opportunities. However, people and organizations need to adapt to a work environment where technological knowledge, skills, flexibility, and collaboration are key to success, and where horizontal networks replace the hierarchy as the new leadership norm. Governments and businesses need to work together to build an appropriate labor market education and policy system for the purpose.

Based on field observations many SMEs lack talented resources to manage their business. Most talented human resources prefer to join a large company. SMEs need to develop a human resource management strategy so that they can seek, develop and retain their human resource talents to become one of their value added businesses.

LITERATURE REVIEW

Local wisdom

Local wisdom is a view of life and science and various life strategies that manifest the activities undertaken by local communities in answering various problems in the fulfillment of their needs. Etymologically, local wisdom consists of two words, namely wisdom (wisdom) and local (local). Other terminologies for local wisdom include local policy (local wisdom), local knowledge (local knowledge) and local intelligence (local genius).

Dimensions of Local Wisdom According to Mitchell [8], local wisdom has six dimensions, namely: 1) Dimensions of Local Knowledge; 2) Local Value Dimension; 3) Local Capacity Dimension; 4) Local Resource Dimension; 5) Dimensions of Local Decision Making Mechanism and 6) Dimensions of Solidarity of Local Groups.

Innovation

The word innovation comes from the Latin word, "innovation" which means renewal and change. The verb "innova" means updating and changing. Innovation can be interpreted as a "process" and or "outcome" of the development and utilization or mobilization of knowledge, skills (including technological skills) and experience to create or improve new products (goods and / or services), processes and systems, meaningful or significant (especially economic and social).

Innovation consists of 4 types, namely

1. Invention is the creation of a new product, service, or process that has never been done before.
2. Extension is the development of an existing product, service, or process. Such a concept becomes an existing idea application that is different.
3. Duplication (Duplication) is an impersonation of an existing product, service, or process. Nevertheless

duplication is not merely imitative but adds a creative touch to improve the concept to be more able to win the competition.

4. Synthesis (Synthesis) is a blend of concepts and factors that already exist into new formulations. This process involves taking a number of ideas or products that have been discovered and shaped so that they can be applied in new ways.

Talent Management

Talent Management is at the core of the Human Capital concept. According to Blass in a thesis written Yllner [9], states that the mapping of talent management based on the slices of each section. Talent management is the result of slices of recruitment, development, and retention.

Competitiveness

Fred David [10] defines Competitiveness / competitive advantage as "whatever the company does better than its rival companies".

Porter outlines the three main ways companies achieve Competitiveness by: 1) Cost Leadership / cost leadership; 2) differentiation; and 3) focus.

Some previous studies related to talent management, innovation, local wisdom and competitive advantage are Serban [7] which proves that talent management has an effect on competitiveness. While research related to the influence of innovation on competitiveness done by Dereli [11] which states that innovation has an effect on increasing competitiveness. Research conducted by Dawn [13] produces a framework about talent management that is influenced by local wisdom and innovation.

Based on previous theoretical and research studies then the hypothesis proposed is:

Hypothesis 1.	:	Local wisdom has a direct and positive impact on competitive advantage.
Hypothesis 2.	:	Innovation has a direct and positive impact on competitive advantage.
Hypothesis 3.	:	Talent Management has a direct and positive impact on competitive advantage.
Hypothesis 4.	:	Local wisdom has a direct and positive influence on Talent Management
Hypothesis 5.	:	Innovation has a direct and positive effect on Talent Management.
Hypothesis 6.	:	Local wisdom has a direct effect on competitive advantage through Talent Management mediation.
Hypothesis 7.	:	Innovation directly affects competitive advantage through Talent Management mediation.

RESEARCH METHODS

This research uses quantitative approach with survey method conducted on employees of UMKM in South Bandung with total sample of 61 people. All variables in the study were measured using a Likert scale of 1-5.

RESULTS AND DISCUSSION

This study uses Generalized Structured Component Analysis (GSCA). The analysis steps are as follows:

1. Testing Measurement Model

There are 3 (three) criteria to assess the measurement model:

a. Convergent validity

Convergent validity test describes the correlation measure between the reflective indicator

score and the latent variable score. For this loading ≥ 0.40 is considered valid.

Testing Results Convergent validity can be seen in Table 1.

Table-1: Convergent Validity Test Results

No	Variables	Indicators	Loading	Note
1	Local wisdom	(X1.1)	0.570	Valid
		(X1.2)	0.851	Valid
		(X1.3)	0.859	Valid
		(X1.4)	0.737	Valid
		(X1.5)	0.852	Valid
2	Innovation	(X2.1)	0.450	Valid
		(X2.2)	0.701	Valid
		(X2.3)	0.791	Valid
		(X2.4)	0.798	Valid
3	Talent management	(Y1.1)	0.866	Valid
		(Y1.2)	0.726	Valid
		(Y1.3)	0.749	Valid
4	competitive advantage	(Y2.1)	0.717	Valid
		(Y2.2)	0.763	Valid
		(Y2.3)	0.769	Valid

Table describes the estimated value at loading in each indicator variable ≥ 0.40 it can be concluded that the variable is valid.

Discriminant validity

In testing the discriminant validity of an instrument is said to be valid discriminant if \sqrt{AVE} is greater than the correlation coefficient of variables concerned with the others. Discriminant validity test results can be seen in table 2.

Table-2: Test results of Discriminant Validity

	AVE	Local wisdom (X1)	Innovation (X2)	Talent management (Y1)	Competitive advantage (Y2)	Note
Local wisdom (X1)	0,547	1	0,242	0,113	0,038	Valid
Innovation (X2)	0,589	0.242	1	0.627	0,570	Valid
Talent management (Y1)	0,567	0.113	0,627	1	0,770	Valid
competitive advantage (Y2)	0,563	0.038	0,570	0,770	1	Valid

Table 2 explains that in all research variables \sqrt{AVE} is greater than the correlation coefficient between variables concerned with other variables. Thus the research instrument is valid discriminant.

Internal Consistency

In testing Internal consistency Reliability of an instrument is said to be reliable when the alpha value is above 0.60. The results of the research reliability test can be seen in Table 3.

Table-3: Reliability Test Results of Research Instruments

Variables	Alpha	Note
Local wisdom (X1)	0,626	Reliabel
Innovation (X2)	0,651	Reliabel
Talent management (Y1)	0,770	Reliabel
competitive advantage (Y2)	0,708	Reliabel

Table 3 shows that all variables yield an alpha value above 0.60 thus it can be concluded that the research instrument has good internal consistency reliability.

Evaluation of Goodness-of-fit Structural Model and Overall Model

Result of Analysis with GSCA Method obtained by fit model contained in Table 4

Table-4: Evaluation of Goodness-of-fit Structural Model and Overall Model on GSCA

MODEL FIT	
FIT	0,501
AFIT	0,480
GFI	0,992
SRMR	0,152
NPAR	37

The results of the above analysis can be said enough to meet the requirements of Goodness-Of-Fit.

Hypothesis testing

Hypothesis Testing and Coefficient of Direct Effect Line

Hypothesis testing and path coefficient of direct influence between local wisdom variables, innovation, talent management and competitive advantage. Direct impact test can be seen from the value of path coefficient and critical point (CR*) which is significant at $\alpha = 0,05$. The test results of direct

influence between the variables in detail can be seen in table 5.

Based on the above analysis the results obtained Hypothesis Testing Research as follows:

H1: Local Wisdom has a direct and positive impact on Competitive Advantage

The results of the analysis indicate that there is empirical evidence that H1 hypothesis that "Local Wisdom has a direct and positive effect on Competitive Advantage" is accepted. The acquisition of the results of this analysis indicates that Local Wisdom will affect the Competitive Advantage.

Table-5: Coefficient of Direct Effect Line and Hypothesis Testing

No	Direct Correlation	Path Coef	C.R. (Uji t)	Conclusion
1	Local wisdom (X1) → Talent Management (Y1)	0,281	2,47*	Significant
2	Local wisdom (X1) (X1) → Competitive Advantage (Y2)	0,005	2,05*	Significant
3	Innovation (X2) → Talent Management ((Y1)	0,695	10,22*	Significant
4	Innovation (X2) → Competitive Advantage (Y2)	0,142	2,98*	Significant
5	Talent Management (Y1) → Competitive Advantage (Y2)	0,681	5,7*	Significant

Note * = significant at $\alpha = 0.05$

H2: Innovation has a direct and positive effect on Competitive Advantage

The results of the analysis indicate that there is empirical evidence that the hypothesis H2 which states that "Innovation have direct and positive impact on Competitive Advantage" received. The results of this analysis show that a good Innovation in a team will improve Competitive Advantage.

H3: Talent Management has a direct and positive effect on Competitive Advantage

The results of the analysis indicate that there is empirical evidence that the hypothesis H3 which states that "Talent Management has a direct and positive effect on Competitive Advantage" is accepted. The result of this analysis shows that the optimal Talent Management will affect the Competitive Advantage.

H4: Local Wisdom has a direct and positive impact on Talent Management

The results of the analysis indicate that there is empirical evidence that the hypothesis H4 which states that "Local Wisdom has a direct and positive effect on Talent Management" is accepted. The acquisition results of this analysis indicate that the existence of good local wisdom will increase Talent Management.

H5: Innovation has a direct and positive impact on Talent Management

The results of the analysis indicate that there is empirical evidence that the hypothesis H5 which states that "Innovation has direct and positive effect on Talent Management" is accepted. The results of this analysis show that optimal innovation will improve Talent Management.

H6: Local Wisdom has a direct effect on Competitive Advantage through Talent Management mediation

The results of the analysis indicate that there is empirical evidence that the hypothesis H6 which states that "Local Wisdom has a direct effect on Competitive Advantage through Talent Management mediation" is accepted. The results of this analysis show that Talent Management mediates the relationship between local wisdom and competitive advantage.

H7: Innovation directly affects Competitive Advantage through Talent Management mediation

The results of the analysis indicate that there is empirical evidence that the H7 hypothesis that "Innovation directly affects Competitive Advantage through Talent Management mediation" is accepted.

The result of this analysis shows that Talent Management mediates the relationship between Innovations with Competitive Advantage.

Examination of Mediation Influence Line Coefficient
In general, the results of the Mediation Path Coefficient test are shown in Table 6.

Table-6: Coefficient of Mediation Influence Line

No	Correlation Variables	Mediation variable	Path coefficient				Conclusion
			A	B	C	d	
1	Local wisdom (X1) → competitive advantage (Y2)	Talent Management (Y1)	0.005*	0.191*	0.281*	0.681*	Partial Mediation
2	Innovation (X2) → competitive advantage (Y2)	Talent Management (Y1)	0.142*	0.473*	0.695*	0.681*	Partial Mediation

Note * = significant at $\alpha = 0.05$

Based on the above analysis it is proved that Talent Management variable as the mediation variable in the relationship of local wisdom path to Competitive Advantage and the relationship of Innovation path to

Excellence Competing with mediation type of part / partial Mediation.

Line Analysis Model

Based on the analysis conducted, it can be arranged path model of influence as in Figure 1.

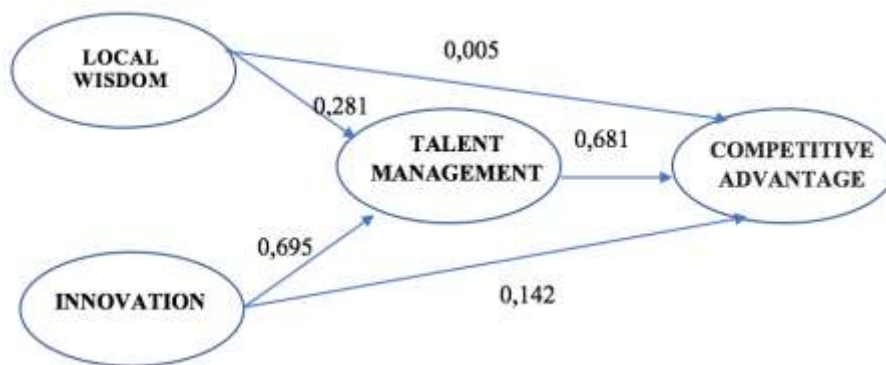


Fig-1: Line Analysis Model

Figure 1 shows the existence of 5 direct influences namely 1) Local wisdom has a significant effect on competitive advantage; 2) Innovation has significant influence Competitive advantage; 3) Talent Management has a significant effect on competitive advantage; 4) Local Wisdom has significant influence on Talent Management; and 5) Innovation has significant effect on Talent Management. Besides, there are two indirect influences: 1) Local wisdom to competitive advantage through Talent Management and 2) Innovation to competitive advantage through Talent Management.

Testing Loading Factor

The loading factor assessment is used to find out the strongest indicator of the variable meter. The highest loading factor value shows the strongest variable gauge indicator that is interpreted as an indicator with the dominant contribution to reflect the variables. The recapitulation result loading factor of each indicator variable is shown in Table 7

DISCUSSION

The Influence of Local Wisdom to the Competitive Advantage

Local wisdom has an effect on Competitive Advantage. The research result proves that the most influential characteristic of local wisdom is local skill from the other four indicators namely local knowledge, local values, local resources and local solidarity. This means that in the SMEs local skills are important because from there will arise product specificity that will be used as one of the advantages in the competition.

The Influence of Innovation to the Competitive Advantage

Innovation affects the Competitive Advantage which means that the existence of a good Innovation in a team will affect the improvement of Competitive Advantage of the company. The findings of this study are in line with the results of research Dereli [11] which states that innovation related premises competitive advantage. Results of research conducted at SMEs

showed that innovation was good enough. The most influential characteristic of Innovation is the characteristic of Systemic. This means that the SMEs studied use synthesis innovations in which the process involves taking a number of ideas or products that have

been discovered and shaped so that it becomes a product that can be applied in a new way. It is expected that this will increase the competitive advantage of SMEs.

Table-7: Estimate Loading Recapitulation

Variable	Instruments		Estimate Loading
Local Wisdom (X1)	Local knowledge	X1.1	0.570
	Local Value	X1.2	0.851
	Local Skills	X1.3	0.859 *
	Local Resources	X1.4	0.737
	Local Solidarity	X1.5	0.852
Innovation (X2)	Intention	X2.1	0.450
	Extention	X2.2	0.701
	Duplication	X2.3	0.791
	Systemic	X2.4	0.798 *
Talent management (Y1)	Recruitmen	Y1.1	0.866 *
	Development	Y1.2	0.726
	Retention	Y1.3	0.749
Competitive advantage (Y2)	Leadership Cost	Y2.1	0.717
	Differentiation	Y2.2	0.763
	Fokus	Y2.3	0.769 *

Note * = Highest / highest load factor value

The Influence of Talent Management to the Competitive Advantage

Talent Management influence on Competitive Advantage. This means that the good Talent Management in the team will increase the Competitive Advantage. This finding reinforces the results of previous research carried out by Serban [12] which states that talent management affects the competitiveness of the company. Result of research at SMEs found that dominant characteristic influence in Talent Management is Recruitment characteristic. Employee recruitment process is the most dominant thing because it will affect the performance of SMEs which culminate in the ability to compete.

The Effect of Local Wisdom on Talent Management

Local Wisdom affects Talent Management which means that the right Local Wisdom can improve Talent Management's effectiveness in team work. The results of this study support previous research conducted by Dawn [13] which states Talent management is influenced by local wisdom. In the SMEs studied showed that local wisdom in the organization under study is still not optimal and need to be improved on local pengetahuan indicator so that later will improve the effectiveness in Talent management.

The Influence of Innovation on Talent Management

Innovation affects Talent Management. This means that a good innovation will improve Talent Management. These findings support and corroborate the results of previous research conducted by Dawn [13] who argue that talent management is influenced by

innovation. Research in SMEs proves that the existence of Innovation that exactly influence Talent Management but still require improvement. Related to talent management that needs to be improved related to talent development that exist in SMEs. Employee development can be done through training.

The Influence of Local Wisdom to the Competitive Advantage through Talent Management

The results prove the existence of Local Wisdom to the Competitive Advantage through Talent management. Appropriate Local Wisdom in a work team can affect Talent management. The existence of good local wisdom in the organization will lead to increased competitive advantage. Competitive advantage in this research is reflected in cost factor, differentiation and focus. The most influencing factor is related to focus. SMEs understand and serve the target market better than other businesses. SMEs can use cost leadership or differentiation to do that. The key focus is choosing one specific target market.

The Influence of Innovation on Competitive Advantage through Talent Management

This study proves the influence of Innovation on Competitive Advantage through Talent Management. Findings on the ground show that a good Innovation will affect talent management that impact on increasing competitive advantage. On the competitive advantage that the factor that needs to be improved is the cost leadership. At the price of SMEs products usually can not be a leader in the price of the product.

How to do cost efficiency is a separate homework for SMEs.

CONCLUSION

Specifically the results of this study can be summarized as follows:

1. Local wisdom has a direct and positive influence on the competitive advantage. This means that good local wisdom can improve the competitive advantage of SMEs.
2. Innovation has a direct and positive effect on Competitive Advantage. The results showed that a good innovation can improve the competitive advantage of SMEs.
3. Talent Management has a direct and positive influence on Competitive Advantage. The optimal Talent Management within the organization is able to increase the Competitive Excellence of SMEs.
4. Local wisdom has a direct and positive impact on Talent Management. This indicates that the local Wisdom owned by the organization can influence improve the effectiveness of talent management in SMEs.
5. Innovation has a direct and positive effect on Talent Management. This shows that innovation in SMEs will improve Talent Management effectiveness.
6. Local wisdom has a direct effect on Competitive Advantage through Talent Management mediation. Local wisdom within the organization will affect the management of talent so as to increase the competitive advantage of SMEs.
7. Innovation directly affects Competitive Advantage through Talent Management mediation.

This suggests that optimal Innovation will then be able to influence Talent Management within the organization and lead to increased competitive advantage. This research provides theoretical implications for the development of Human Resource Management Science, especially in the field of local wisdom, innovation, talent management and competitive advantage.

Limitations in this study are as follows: 1) This study was conducted on some SMEs in the city of Bandung; 2) The instrument used in this study is a closed questionnaire so as not yet fully able to control the honesty and accuracy of the respondent's answer whether in accordance with the actual reality. Based on the weaknesses in this study can be suggested for further research: 1) Further research can examine further about other variables that affect Talent management and Competitive Advantages 2) Further research can develop indicators on conflict management and organizational communication; and 3) Further research can conduct similar research by extending the research area to know the consistency of the findings.

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