

Talent Management Strategies as a Key to Innovation: Exploring Diversity in Yogyakarta's MSMEs

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Abstract

This study explores the crucial role of talent management strategies in fostering innovation within Micro, Small, and Medium Enterprises in Yogyakarta, Indonesia, with a specific focus on diversity as a driving factor. Employing a mixed methods approach, the research highlights the limited awareness among Yogyakarta's MSME actors regarding the significance of talent management and its impact on business innovation, particularly through leveraging diversity. The findings indicate a positive correlation between the implementation of talent management strategies and enhanced business innovation among MSMEs in the Malioboro area of Yogyakarta. Notably, diversity as a mediating variable strengthens the positive relationship between talent management and business innovation. This underscores the urgency for MSMEs to adopt inclusive talent management strategies that value diversity to stimulate innovation and competitiveness.

Keywords: Talent Management, Diversity, Innovation.

INTRODUCTION

Yogyakarta, a city located in the centre of the Indonesian island of Java, is known as one of the most ethnically diverse cities in the country. The city has been a melting pot of different religions, languages, cultures, and ethnic groups, hence its great diversity. Despite its great diversity, Yogyakarta rarely experiences violent conflict and is often described as a harmonious, tolerant, and accommodating community. The Governor of Yogyakarta, Sri Sultan Hamengku Buwono X, once received an award from the

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Indonesian Inter-faith Network (JAI) for his success in maintaining the city's pluralism. However, since the shooting of four prisoners from East Nusa Tenggara province at Cebongan Prison on the outskirts of the city by Indonesian Army Special Forces (Kopassus) on March 23, 2013, Yogyakarta's reputation as a tolerant and harmonious city has come under great pressure ([Harnoko, 2008](#)).

Talent management has been a major focus in Yogyakarta, with research showing that talent management practices and knowledge directly and significantly impact employee performance. Furthermore, talent management also has an indirect influence on employee performance, mediated by job satisfaction levels. Although some oppose diversity on the grounds of uniformity and other factors, it is important to continue encouraging and maintaining diversity in Yogyakarta. While effective and inclusive talent management should remain a priority (Karas, 2017), talent management practices significantly affect employee performance, with the mediating role of employee engagement. This study demonstrates the importance of talent management in achieving and sustaining employee engagement and positive attitudes towards their work. Therefore, talent management and diversity must be considered for optimal employee performance.

In the current era of globalization, recognizing the need for talent management as a catalyst for innovation is important, especially in the context of Micro, Small and Medium Enterprises. This research departs from the gap in understanding the importance of talent management strategies to encourage innovation among MSME players. Yogyakarta's MSMEs, considered pillars of the creative and innovative economy, often need help recognizing and managing talent as a source of competitive advantage. Such a situation raises the question of optimizing talent management strategies to stimulate the innovation needed in MSME business exploration and development. Utilizing a qualitative approach, this study examines perceptions of job satisfaction and how it affects the effectiveness of talent management strategies in MSMEs (Aman, 2021).

In this research, the author seeks to dig deeper into the contribution of talent management practices to the sustainable commitment of MSME businesses. This is relevant because many businesses have yet to realize how important it is to integrate quality talent into business strategies to maintain competitiveness and innovation. MSMEs with open-minded and innovative human resources have greater potential to explore their business activities. Thus, this study seeks to provide new insights into the competitive advantages that can be gained through effective and integrated talent



management, which in turn will improve the innovation performance and business growth of MSMEs (Wicaksana & Perdhana, 2021).

The problem of MSMEs' unpreparedness in dealing with diversity is one of the crucial barriers to implementing talent management as a key to innovation. Research reveals that businesses often face difficulties identifying and managing their organizations' diverse potential, ultimately affecting their innovation ability (Prakash et al., 2021). This is due to a need for more awareness or understanding of how diversity can be a force that drives innovation. Many MSMEs are unfamiliar with best practices in talent management and need help understanding how to create an inclusive work environment that supports the exchange of creative ideas and solutions. This limits new perspectives and stifles the pace of business innovation. Therefore, MSMEs need to understand that integrating effective talent management with the utilization of diversity can open up new pathways for innovation and sustainable growth (Singh & Wasdani, 2016).

Research objectives

1. To evaluate Yogyakarta MSME players' perceptions of the importance of talent management in driving innovation.
2. To identify talent management practices that Yogyakarta MSMEs have adopted in driving diversity and innovation.
3. To explore the relationship between talent management and diversity on innovative performance in Yogyakarta MSMEs.
4. To develop strategies that Yogyakarta MSMEs can implement to improve the effectiveness of talent management as a catalyst for innovation.

Research hypothesis

- H1: There is a positive relationship between the recognition and implementation of talent management and higher levels of innovation in Yogyakarta MSMEs.
- H2: Diversity in human resource management of Yogyakarta MSMEs contributes to increased innovative performance.
- H3: The openness of Yogyakarta MSMEs to diversity increases the likelihood of exploring and implementing new innovative strategies.
- H4: Talent management effectiveness in Yogyakarta MSMEs is mediated by organizational policies that support diversity and inclusiveness.

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LITERATURE REVIEW

Talent management

Talent management theory focuses on identifying, developing, managing and retaining individuals with the potential and ability to excel in the organization. Talent can be defined as individuals who possess unique and valuable abilities and skills and have the potential to improve organizational performance (Shoaf et al., 2004). Talent is a valuable resource and developing a work environment that supports individual growth. Talent retention involves efforts to increase individual job awareness and satisfaction, as well as reduce resignation rates.

In practice, talent management theory can be applied by identifying individuals with superior potential through selection and evaluation processes. Furthermore, these individuals can be developed through training and mentoring to improve their abilities and skills. Talent management can be done by developing a work environment that supports individual growth and reduces the resignation rate. Talent retention can be done by increasing individual job awareness and satisfaction and reducing the rate of resignation. Thus, talent management theory can help organizations achieve goals by developing and managing strategic and valuable resources (Huselid, 1995).

Innovation

Innovation is a vital key that determines the survival and growth of Micro, Small and Medium Enterprises. The importance of innovation for MSMEs is noted in the context of increasingly globalized market competition, where innovation encourages MSMEs to enter new markets, increase their existing market share, and gain a sustainable competitive advantage (Ling & Mui, 2018). Factors that drive innovation include rapidly changing technological advances, shortening product cycles, and increasing costs and risks of the innovation process (Kozioł-Nadolna & Świadek, 2011). MSME players must be responsive to change and able to respond at high speed, create innovative products or services and meet the needs of the growing market. Through the innovation process, MSMEs can maintain their position in the local market, improve their performance, and expand their reach to international markets, making a significant contribution to the economy. Innovation in MSMEs is the cornerstone of a country's sustainable development and economic competitiveness, and this is especially relevant when it comes to the need for continuous adaptation and renewal in MSME business schemes.



Diversity

Diversity in the workforce is key to promoting progress in problem-solving and developing a strong network of creativity and innovation within any organization. With employees coming from various ethnic, social, and professional backgrounds, each person brings a unique perspective that enriches the pool of ideas and provides a variety of solutions to the challenges faced by the company (Timney & Chamberlain, 2017). The link between diversity and the innovative capacity of teams is found in the synergy created when different views and approaches are brought together, creating a more holistic and detailed approach to tackling complex problems. This increases creative output and contributes to overall operational effectiveness and efficiency (Milivojević & Manić, 2019). Managing diversity correctly results in a more collaborative and productive environment, helping pave the way towards high-impact innovations that positively affect business growth (Waples & Friedrich, 2016).

On the other hand, inclusivity in talent management plays a strategic role in ensuring that every member of the organization feels valued and empowered to reach their full potential. Inclusivity goes beyond recruiting individuals from diverse backgrounds; it also creates an environment where they can work without discriminatory barriers and have equal opportunities to advance and contribute to the company's vision (Waples & Friedrich, 2016). An inclusivity policy should be an intrinsic part of a company's culture, creating the foundation for effective collaboration and inclusive decision-making processes. This ensures that voices from different points of view are not only allowed but also valued and encouraged, opening up space for innovation and increased productivity (Greenstein, 2021).

Research on micro, small, and medium enterprises in Indonesia, particularly in the context of Yogyakarta, reveals patterns that define these business entities' operational and strategic frameworks. The focus of the study shows that MSMEs in Yogyakarta are adopting digital innovations to expand their markets and target a wider range of consumers, which is in line with global trends and increasing internet penetration (Sari & Setiyana, 2020). However, MSMEs in Yogyakarta also face challenges, including limited capital, market competition, and the need to adapt to changing regulations. Therefore, growth opportunities can be achieved through the proper utilization of technology and marketing strategies that utilize the uniqueness of local culture as a value-added product that can attract tourists and introduce products to international markets. These studies are not only helpful in identifying barriers but also in charting a path for MSMEs to optimize existing resources and identify potential growth in Yogyakarta's economic ecosystem.

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Talent management and diversity are critical factors that collectively form the foundation for innovative organizational performance. Starting from the principle that employees are the most valuable asset, talent management focuses on identifying, recruiting and developing talented individuals who have the potential to make significant contributions. This includes appropriate training and strategic career development approaches, which enable individuals to develop and demonstrate their innovative capacity. On the other hand, diversity brings diverse perspectives, ideas and approaches into the organization, fostering a creative work environment and promoting unique problem-solving. As researched by Hedda Bird in "Appraising clever people: lessons from introducing performance reviews for academics in a UK University", performance management creates significant value in an educated workforce (Bird, n.d). Diversity in the work environment also stimulates diversity of thought, breeds unconventional innovation and drives technological advancement. In the process of synergy between talent management and diversity, organizations become more adaptive, innovative and competitive. To ensure these initiatives are successful, organizations must broadly involve employees in designing and implementing talent and diversity management strategies, which ultimately support the achievement of the company's strategic goals by improving overall innovative performance.

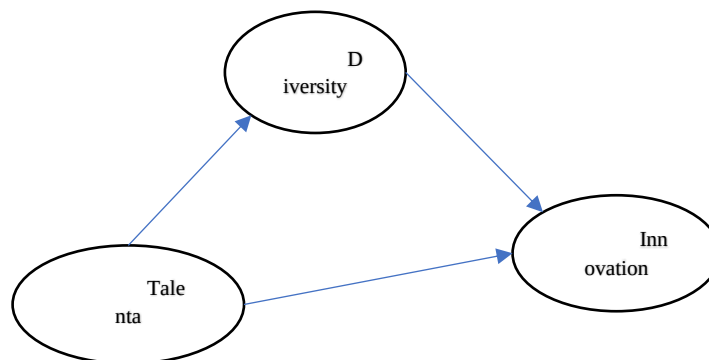
Talent management and diversity are two core elements that strategically shape innovative performance in contemporary organizations. In talent management, efforts are made to identify and develop the capacity of individuals with creative and innovative potential. This is realized through a comprehensive approach, not only focusing on improving technical competencies but also on strengthening behaviour and cultural values that are aligned with the company's philosophy, as described by Divina M. Edralin, who said that extensive training and development practices are one of the best practices that trigger innovation (Edralin, 2011). Diversity, on the other hand, brings a diversity of perspectives that has direct implications on innovation capacity as different backgrounds, experiences, and thoughts drive different innovative approaches. The interaction between talent management and diversity creates synergies that optimize creativity and innovation; therefore, innovation-oriented organizations must design and implement management strategies that support diversity and talent development. Such a management model cannot only stimulate innovation but also enhance the organization's competitiveness and adaptability amidst fast-changing market dynamics.

At the same time, MSMEs' innovative capacity is enriched by extensive IT penetration, which enables the development of innovative solutions that are responsive

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to fast-changing market demands. IT-based tools and platforms provide MSMEs access to vast market data, enabling them to conduct sophisticated analysis that informs the development of new products and services. This availability to effectively utilize information flows and extract valuable insights is a key driver of new value creation in a highly competitive business ecosystem.



Gambar 1 Model penelitian

METODOLOGY

The research design of "Talent Management Strategies as Key to Innovation: An Exploration of Diversity in Yogyakarta MSMEs" allows for integrating quantitative data that provides statistical clarity and scale and qualitative data that offers an in-depth understanding of the context and nuances of human behaviour. This mixed methodology is supported by the literature, as described by Mayring and Fenzl, who highlight the advantages of Mixed Methodology in Psychological Research to gain more holistic and in-depth insights (Mayring, 1991). This method is also in line with research in management science, which often requires a comprehensive approach to understanding complex phenomena, as demonstrated by advanced research on innovation behaviour and talent management (Nazari, 2014). As such, the research design facilitates a multifaceted exploration of the relationship between effective talent management and innovation in MSMEs, making this study an important contribution to the practice and literature on innovation in dynamic business contexts.

Research Design

The mixed research design involved two consecutive phases: first, the quantitative phase was implemented by distributing questionnaires designed to measure

predetermined parameters relating to talent management strategies. The questionnaire was developed based on existing literature and relevant theories in talent management and innovation. Second, the qualitative phase involved in-depth interviews with a purposive sample of MSME actors to better understand how talent management strategies are implemented and linked to innovation efforts in their business practices.

Population and Sample

The population in this study are MSME players in Yogyakarta with certain criteria, such as business age and industry type. From this population, samples were taken using a purposive sampling method based on predetermined inclusion criteria, namely MSME players who have implemented talent management strategies and have a record of innovation in their products or services. The number of samples is determined to be 80 respondents, and this will be further reviewed based on the age of the business and the type of industry it is engaged in.

Data Collection Technique

Using this mixed research model design, the author collected data to be analyzed by distributing questionnaires to MSME players in the Yogyakarta area, precisely the business actors around Malioboro Street. Other data were collected as qualitative data in the form of interactive dialogue, namely by conducting surveys and direct interactions with MSME actors to obtain more in-depth information related to innovations that MSME actors can make by involving the talents of existing business actors or workers.



Data analysis

In this section, I would like to describe the results of analyzing the data collected to understand the effect of talent management strategies on innovation capabilities in Yogyakarta MSMEs within the diversity and diversity framework.

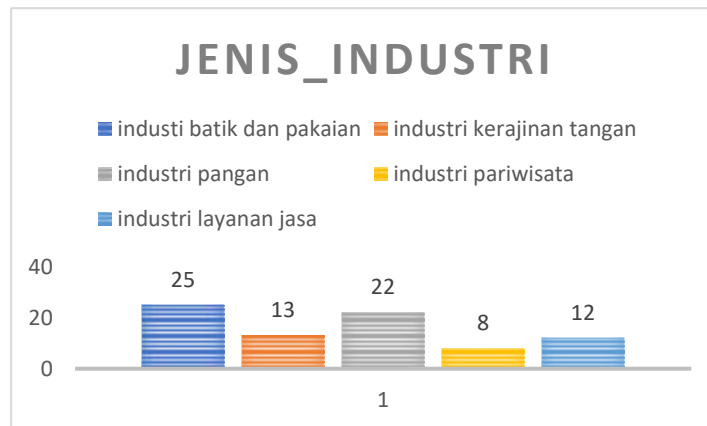


Figure 2. Types of industry

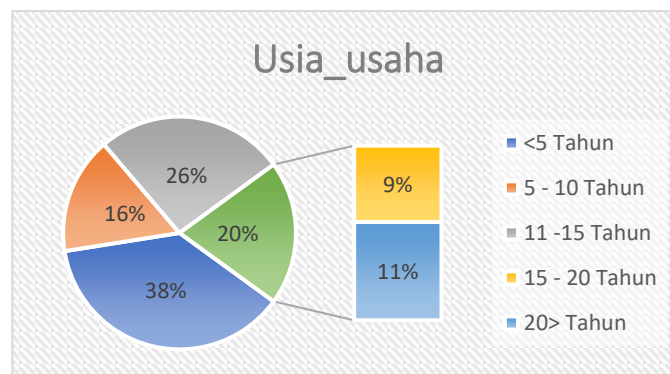


Figure 3. Age of business

This study adopts the Smart Partial Least Squares method to analyze the effect of talent management strategies on innovation in MSMEs, with diversity acting as a mediating variable. Focusing on MSMEs in Yogyakarta, this study seeks to uncover how implementing an effective talent management strategy can encourage increased innovation, particularly through the key element of diversity. This study is in line with previous research (Marion Festing, Katharina Harsch, Lynn Schäfer, 2017) which

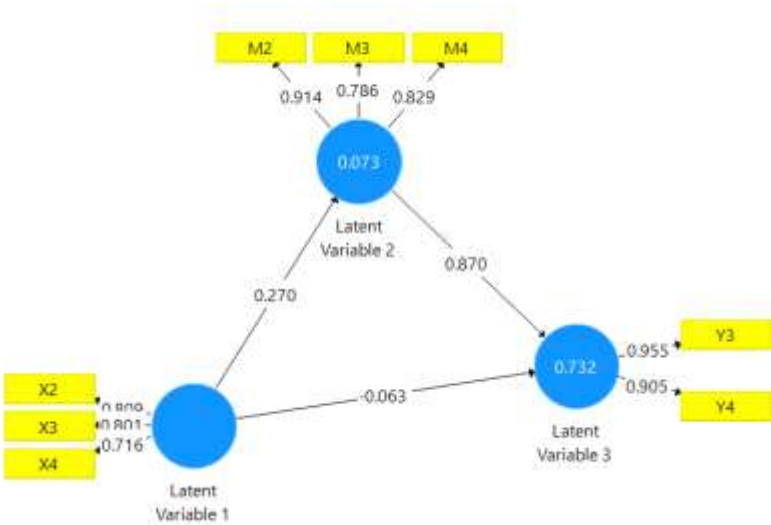
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emphasizes the importance of talent management strategies in driving performance and innovation, especially in the context of MSMEs which often face challenges in attracting and retaining talent.

RESULTS AND DISCUSSION

Table 1. Reliability and Construct Validity

	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
Latent Variable 1	0,670	0,676	0,820	0,603
Latent Variable 2	0,805	0,899	0,881	0,713
Latent Variable 3	0,850	0,929	0,928	0,866



Gambar 2. Analisis SmartPLS

The table above shows that the independent variable (Talent management) has a Cronbach's Alpha value of 0.670, rho_A of 0.676, Composite Reliability of 0.820, and Average Variance Extracted (AVE) of 0.603. These values indicate that the construct has acceptable reliability and validity, indicating a reliable and valid measure of the underlying concept. The mediating variable (Diversity) has a Cronbach's Alpha value of 0.805, rho_A of 0.899, Composite Reliability of 0.881, and an AVE of 0.713. These values also indicate that the construct has good reliability and validity, indicating that it is a reliable and valid measure of the underlying concept. The dependent variable (Innovation) has a Cronbach's Alpha value of 0.850, rho_A of 0.929, Composite Reliability of 0.928, and AVE of 0.866. These values indicate that the construct has excellent reliability and validity, indicating that it is a reliable and valid measure of the underlying concept. Overall, the data that has been analyzed shows that the research model has strong psychometric properties, with the independent, mediating, and dependent variables all showing acceptable to excellent reliability and validity.

This study applied the SmartPLS methodology and found that talent management, as an independent variable, positively contributes to the motivation of MSME actors with a path coefficient of 0.063. This finding confirms the measurable relationship between effective talent management strategies and workers' motivation levels, often associated with increased productivity and job satisfaction.

Further analysis shows that talent management significantly impacts organizational diversity, with a path coefficient of 0.270, indicating the strategic role of talent management in promoting an inclusive and heterogeneous work environment. With a strong coefficient of 0.870, diversity proved to be a highly effective mediator in driving innovation within MSMEs. These results provide strong empirical evidence of the importance of nurturing diversity to achieve higher levels of innovation, which is highly relevant for developing MSMEs in today's global market era. These findings enrich the academic literature and provide important information in strategic decision-making for MSME stakeholders.

Tabel R Square

	R Square	R Square Adjusted
Latent Variable 2	0,073	0,061
Latent Variable 3	0,732	0,725



A brief overview of the findings follows: From the R square table, it can be understood that

1. Talent management explains about 7.3% (or 6.1% adjusted) of the variance in diversity.
2. Talent management and diversity together explain about 73.2% (or 72.5% adjusted) of the variance in innovation.

The analysis suggests a strong positive relationship between talent management and innovation, with diversity as a mediating variable in linking talent management to innovation.

The results of this study show that implementing talent management strategies positively influences increasing innovation among MSME players in the Yogyakarta City area, especially those around Malioboro Street. Implementing effective talent management strategies, such as talent identification and development, contributes significantly to increasing the capacity of MSMEs to produce innovative products, services and business models (Marion Festing, Katharina Harsch, Lynn Schäfer, 2017). Furthermore, this research reveals that talent management is important in encouraging a diverse and inclusive business environment (Kumar & Suresh, 2018). The existence of diversity in terms of skills, knowledge, and backgrounds among MSME actors has been proven to encourage the birth of new ideas and creative solutions that ultimately lead to increased innovation.

The role of diversity in driving innovation among MSMEs in Yogyakarta, especially those around Malioboro Street, is surprisingly high. Not only does talent management contribute to building innovation, but diversity in the MSME environment also significantly contributes. Diversity in skills, knowledge, cultural backgrounds, and perspectives among MSME actors has triggered new ideas and innovative approaches in developing products, services, and business models. This finding indicates that implementing talent management strategies that pay attention to and involve diversity in a conscious and planned manner can contribute significantly to increasing the innovation of MSME actors (Kumar & Suresh, 2018). The strategy includes efforts to attract, develop and retain talents from various backgrounds and create an inclusive organizational culture that values differences. (Festing et al., 2017) Thus, the potential of diversity can be optimized to encourage innovation and improve the competitiveness of MSMEs.



CONCLUSIONS AND SUGGESTIONS

The conclusion of the discussion "Talent Management Strategy as the Key to Innovation: An Exploration of Diversity in Yogyakarta MSMEs" shows positive results. It is proven that talent management as an independent variable significantly influences innovation as the dependent variable, with diversity acting as a mediating variable. This aligns with research (Al-Ansari et al., 2013), which confirms that effective talent management practices positively correlate with increased innovation, especially in MSMEs. Furthermore, this finding is reinforced by (Valaei et al., 2016), which emphasizes the importance of an adaptive and change-responsive talent management strategy to foster innovation in a dynamic business environment.

The existence of diversity in the MSME environment, especially in Yogyakarta and especially those around Malioboro Street, contributes significantly to increasing business innovation. Research (Zhang, 2023) shows that diversity in terms of skills, knowledge, and background among MSME actors triggers the birth of new ideas and innovative approaches. This phenomenon is in line with (Sudarmaji et al., 2020), which states that an inclusive work environment that respects differences encourages creativity and innovation. Therefore, the implementation of a talent management strategy that accommodates and maximizes the potential of diversity is key for MSMEs to continue to innovate and improve competitiveness.

Based on the research results and conclusions that have been presented, there are several suggestions that future researchers can consider. First, more in-depth and specific research is needed to identify the most effective talent management models or strategies for encouraging innovation in various sectors and scales of MSMEs, considering the unique characteristics and needs of each sector and business scale. Second, further research is needed to explore the factors that can influence the successful implementation of diversity management in the MSME environment, such as organizational culture, leadership style, and stakeholder commitment. Further research is expected to contribute more comprehensively to developing knowledge and best practices of talent and diversity management to support the growth and sustainability of MSMEs in the Malioboro Street area of Yogyakarta.

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