



The Role of Innovation on Distributing Knowledge Management and Talent Management on SME's Performance

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Currently, innovation is very important factor for the business world to continue to exist and compete in an increasingly dynamic industrial environment, organizations have an interest in managing their knowledge and talents and how to make an innovative culture as a tool to distribute these two factors to achieve the best performance. Starting from this argument this study aims to analyze the role of innovation on distributing knowledge management and talent management to increase performance. Data collection in this study was carried out by distributing questionnaires to 200 SME's Business Actors in South Sulawesi as a respondent. Partial Least Square (PLS) analysis was used as data analysis. This study indicates that knowledge management and talent management directly has a positive and significant effect to performance, knowledge management and talent management also directly has a positive and significant effect on innovation, innovation has a positive and significant effect to performance, this research result also indicated indirectly knowledge management and talent management has a positive and significant effect to performance through innovation.

Keywords: Knowledge Management, Talent Management, Innovation, Performance

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Small and Medium Enterprises (SMEs) are one of the potential drivers for economic development in the world. The Asian Development Bank (2001) ([Brattberg, 2017](#)) states that the role of Small and Medium Enterprises (SMEs) is important for industrial restructuring, SMEs have a major contribution in developing economic growth, especially in developing countries. SMEs can move the wheels of the nation's economy and reduce the number of unemployed. The SME businesses has become a strong pillar of the economy. This is proven when Indonesia experienced economic crisis in 1998, the MSME businesses is the only which survived the economic collapse. However, various problems often arise that hinder its growth and development.

Based on data from the entire population of SMEs in Indonesia, the growth of SMEs was very slow. In early 2018, there were 60 million SME units spread throughout Indonesia. Through this year, MSME has transaction around 8,573 trillion rupiahs and contribute (based on valid price) toward National Gross Domestic Product around 57.80%, and absorbing 91% of workers. In 2019 there was a fairly slight increase of 63 million SME units, with transactions of 8.700 trillion and GDP of 60.30% and employment of 96% until 2020, there was a significant decline up to 34 million SMEs, the development of SMEs also fluctuates every year. In 2018 there were 60 million new units/start-up SMEs spread throughout Indonesia then in 2019 there was a fairly slight increase to 63 million and in 2020



there was a decline which is very drastic due to pandemic, reaching out 34 million SMEs. There are also various problems with internal and external core factors. [\(Panjaitan, Timur, & Sumiyana, 2021\)](#)

The slow growth of SMEs is certainly an important problem to pay attention to. Several problems are the cause of them, including the phenomenon of low knowledge and low innovation and creativity of SME business actors. Other important problems are weak managerial abilities and lack of talented human resources, which lead the small entrepreneurs are unable to run their business properly. Of course, this problem is the cause of low performance which further slows the growth of SMEs, as stated by [\(Govori, 2013\)](#) that the performance and growth of SMEs refers to the results of the company's business activities which are volatile and less sustainable.

[Haroon, Hafeez & Lazim, \(2012\)](#) argues, the strategic role of developing small and medium enterprises (SMEs) is not an easy thing, SMEs have quite complex problems, including 1). Lack of knowledge about marketing. 2) weak Bargaining Power. 3) lack of capital 4) lack of understanding of technology. Likewise, the problems faced by SMEs in Makassar City, South Sulawesi Indonesia, namely the low quality of human resources and the lack of knowledge and entrepreneurial orientation which result a low business productivity and performance competencies. This also constrained the creativity and innovation as basic capital in the effort to achieve power competitiveness for the development of SMEs as a business goal [\(Mazla, Tufail, Yakim & Zainal, 2020\)](#).

Knowledge becomes very important in the development of Businesses. It becomes the basis of creative and innovative work. Therefore, in a modern way, a business needs the support of directed knowledge (Knowledge management) the relationship between Knowledge management and innovation as equated by [\(](#)

[Nonaka, Toyama & Konno,2002\)](#) which states that Knowledge management can improve employee innovation, learning and performance; affect their flexibility and job satisfaction [\(Irma Becerra-Fernandez, Rajiv Sabherwal, 2014\)](#)

The success of Small and Medium Enterprises (SMEs) is related to how SMEs manage their knowledge [\(Omerzel, 2010\)](#). Thus, it becomes clear if the economic improvement of a business is influenced by good knowledge of the business. The knowledge-based economy has demanded SMEs to be able to use knowledge efficiently and increase the potential for innovation, faster than its competitors [\(Grant, 1991\)](#)

Knowledge management is a process of creating, acquiring, understanding, sharing, and using knowledge, wherever it is located to improve learning and organizational performance [\(Omotayo, 2015\)](#). It includes identification, creation, acquisition, transfer, sharing, and exploitation of knowledge. Knowledge management is an important component in business strategy, because the value of HR is becoming increasingly important for an organization's competitive advantage. By having knowledge management core and organizational competencies can be centralized and developed which covers aspects of the organization's core business processes in increasing organizational effectiveness.

The successful implementation of knowledge management is also determined by a clear and well-planned strategy [\(Fahroni & Tjakraatmadja, 2013\)](#). For SMEs, this will be the basis for how SMEs can use their capabilities and resources to achieve their knowledge management goals. Strategies for implementing knowledge management should be adapted to the situation and context of the organization itself. The strategy should be integrated with the organization's business strategy.

SMEs that are able to adapt to market competitive conditions, innovate, and expand networks, will achieve the desired goals



([Distanont & Khongmalai, 2020](#)). Having knowledge means creating innovation. However, innovation without knowledge is the same as boasting, Empirical evidence from research ([Hassan & Raziq, 2019](#)) stated that the knowledge management strategy has a direct effect on organizational performance. Knowledge management have a great influence on the performance of SMEs, companies with knowledge management capabilities will use resources more efficiently so that they will be innovative and perform better. ([Hassan & Raziq, 2019](#)).

Literature Review

Knowledge based View (KBV)

Knowledge management implementation and related innovation role aims to build human capital involvement in improving organizational performance by ([Barney, 1991](#)). The role of Knowledge Based View (KBV) is an effort to build human capital involvement through knowledge management so as to enable companies to adapt to various problems more effectively and efficiently. This makes human resource development more dominant and structured within a company. In the current era of competition, especially the SME businesses competes by developing more effective of new knowledge. The meaning of this explanation, according to RBV and KBV, is that intellectual capital meets the criteria as a unique resource to create value added. This added value is a better performance which increased overtime by the employee within the company.

Regarding the role of resources in creating value, there has been a paradigm shift, that intangible assets are more important than tangible resources ([Garanina, 2009](#)) in strategic decision making of the intangible assets, knowledge is widely recognized as the most important organizational asset for creating value

and sustainable competitive advantage; ([Ikujiro Nonaka & Lewin, 1994](#)). Knowledge in organizations is proven to play a role as a key input for the manufacturing strategy formulation process, directing the development of capabilities to create product value ([Garanina, 2009](#)).

Knowledge is immensely strategic for organizations that knowledge management has been carried out very successfully by many leading organizations. Knowledge management is a series of processes of converting data and information into useful knowledge for various organizational interests. This process includes the creation, acquisition, storage, sharing, and use of knowledge

The form and ability of the organization in managing knowledge (knowledge management) greatly affects the quality of the knowledge produced and ultimately the quality of actions or decisions from the use of that knowledge ([Mohajan, 2017](#)), innovation performance and knowledge management has also been shown to have a significant effect on new product development strategies and new product development performance. ([Poh Kiat Ng, Gerald Guan Gan Goh, & Uchenna Cyril Eze, 2011](#)) Knowledge management resources are closely related to human resources (HR), so that strategic planning can effectively achieve organizational performance.

Knowledge Management

Knowledge management is a systematic coordination within an organization that manages human resources, technology, processes and organizational structures in order to increase value through reuse and innovation. This coordination can be achieved through creating, sharing and applying knowledge by using experiences and actions that have been taken by the company for the sake of continuing organizational and corporate learning ([Chinowsky & Carrillo, 2007](#)).



The definition of knowledge is currently still being discussed and debated, because in this case knowledge is not translated ([Marr & Spender, 2004](#)). knowledge is not just about knowledge, but knowledge is defined as follows: "knowledge is a mixture of experience, values, intellectual information, expert views and basic intuition that provides an environment and framework for evaluating and integrating new experiences with information ([Wiklund & Shepherd, 2003](#)). Thus, knowledge is seen by some organizations as a strategic resource that provides the means to create innovative products and services, thereby providing a competitive advantage in the marketplace.

Talent management

The term talent management was first coined by McKinsey and his company which was later published in research ([Axelrod, Jones & Welsh, 2001](#)). Subsequently, in 1998, talent management was included in an academic article written by Elizabeth G. Chambers, Mark Foulon, Helen Handfield-Jones, Steven M. Hankin, and Eduard G. Michaels III which explains the relationship between human resource development and its effectiveness has been developed since the 1970s. The term talent management actually refers to anticipating the need for human resource capabilities in an organization and knowing how to plan to meet those needs. This term has become increasingly popular since the publication of the results of research from McKinsey and a book entitled *The War for Talent*.

It should be emphasized over again that talent management is an organization's ability to not only recruit but also retain and produce the most talented employees available in the job market. Talent consistently provides advantages in the current economic crisis, such as: revenue, customer satisfaction, quality, productivity, cost and market capitalization. Having good talent management is when someone has good skills,

knowledge, cognitive abilities and has the potential to do it well and properly.

Overall, the term talent management is used to describe an organization's commitment in recruiting, managing, developing, and retaining talented employees. It includes all processes and work systems associated with retaining and developing a superior workforce. Talent management is also a business strategy that is expected to be able to retain the best and competent employees. Similar to employee engagement or employee recognition, this business strategy will ensure the attraction of the best talent in competition with other employees.

Company Innovation

To innovate, organizations are required to have good and deep knowledge, so that in the process of creating knowledge, it has an impact on organizations that are trying to improve their working methods. The innovation process relies a lot on knowledge, especially because Knowledge represents a field (realm) much deeper than data, information and conventional logic; therefore, the power of knowledge lies in its subjectivity, which underlies the values and assumptions that form the foundation for the learning process.

In today's dynamic business environment, having a good strategy is not enough, a business must develop in synchronization with the environment and focus on achieving a sustainable competitive advantage. One of the potential mechanisms for sustainable competitive advantage can be obtained through the implementation of innovation capabilities. ([Hilmi & Ramayah, 2009](#)), marketing strategies that reach saturation point require input of new innovation strategies. Today's consumers are more demanding of information than before. Responding to customer needs and changing market conditions is critical to the company's success for the introduction of new products and service innovation capacity of the company.

The study of management functions is very

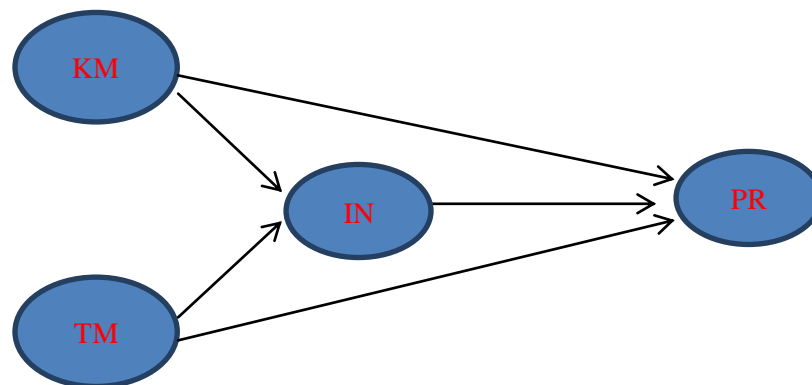


important because they relate to overall business performance. The innovation of industrial companies by environmental conditions is to provide added value to customers. Furthermore (Khan, Hafeez, Rizvi, Hasnain, & Mariam, 2012) distinguishes innovation, namely internal innovation refers to the company's independence in resources and competencies. The indicators used to measure the company's innovation variables are technological innovation, managerial innovation, marketing innovation, and product innovation.

(Khan et al., 2012) defines a company's innovation as successful implementation of creative ideas, while innovation performance is related to entry and penetration into the market, with innovative products and gaining market share. in the context of marketing, innovation refers to new products related to efforts to make new breakthroughs. It was explained that innovation includes technical innovation and administrative innovation. (Hilmi & Ramayah, 2009) define innovation as a response to adapt to

environmental changes or as an anticipation effort to affect the environment or as an anticipation effort to influence the environment and achieve competitive advantage and improve company performance. Innovation itself is defined as taking creative ideas and turning them into useful products or work methods including innovation in the use of technology, including for the SMEs sector, which is currently dealing with technological advances so that technology mastery is needed to build business resilience. (Hidayat, M., Latief, F., Widiawati, A., Asbara, N. W., & Zaeni, N. 2021).

Based on the description above, it can be concluded that performance of SMEs will be greatly influenced by Knowledge Management and Talent Management and these two things will be the main factors of innovative culture in the organization which also greatly influences performance. Based on this thinking, the conceptual framework of this research is illustrated in figure 1 as follow :



KM : Knowledge Management TM : Talent Management IN : Innovation PR : Performance

Figure 1 : Conceptual Framework



Based on the conceptual framework above, the hypothesis of this research is structured as follows:

H1. Knowledge Management Affects SME Performance

Knowledge management has emerged as a source of sustainable corporate competitive advantage ([Barney, 1991](#)), ([Sirinaga, Khatibi, & Azam, 2020](#)), ([Hassan & Raziq, 2019](#)) ([Xu, Hou, Niu, Wang, & Xie, 2018](#)) the results of these studies indicate that each knowledge management construct will affect innovation and performance based on the results of previous studies and arguments. If knowledge is the basis of performance achievement, then H1 of this study suspects that knowledge management has an effect on performance.

H2. Talent Management Affects SME Performance

[Horvathova & Durdova, \(2010\)](#) published a paper that focuses on the basic concepts, essence, content, significance, usefulness of talent management and its processes. It can be concluded that if a company wants its organization to progress, it must be able to organize employees according to their respective fields of expertise, placement and recruitment should be appropriate in order to achieve maximum performance and sustainable excellence. Talent management which is intended to increase the capacity of human resources is prepared by the organization in order to build HR capabilities to achieve organizational performance. With this argument, H2 of this study suspects that talent management has an effect on performance.

H3. Knowledge Management Affects Business Innovation

Research conducted by ([Valdez-Juárez, De Lema, & Maldonado-Guzmán, 2016](#)) ([Mardani, Nikoosokhan, Moradi, & Doustar, 2018](#)) examines the relationship between Knowledge

management and innovation with the application of variables (Knowledge acquisition, Knowledge dissemination, Responsiveness to Knowledge). The results of this study indicates that Knowledge management strategy has a direct effect on organizational performance and also has an indirect effect through innovation as a mediating variable. Basically, innovative behavior is born from people who have good intelligence and knowledge. Thus, knowledge that is well organized in an organization will affect the innovative power of the organization. Based on this argument, H3 of This study suspects that management knowledge has an effect on innovation

H4. Talent Management Affects Business Innovation

Along with knowledge management, talent management is also one of the programs conducted by the organization to direct talents of human resource in supporting organizational innovation in field practice. Implementation of talent management is closely related to the practice of Human Resources Management (HRM) ([Al-Hakim & Hassan, 2013](#)) ([Collings, Mellahi, & Cascio, 2019](#)) ([Payambarpour, S. A., & Hooi, L. W. 2015](#)) ([van den Broek, Boselie, & Paauwe, 2018](#)). The researchers examined the relationship between knowledge-based HRM practices, knowledge management capacity, intellectual capital, product and process innovation in SMEs. The results of this study states a positive influence of knowledge-based HRM practices on knowledge management capacity in product and process innovation. Likewise, the knowledge management capacity of SMEs has a positive impact on intellectual capital and product and process innovation. Based on the results of previous research, H4 of This study suspects that talent management has an effect on business innovation

H5. Business Innovation Affects SME



Performance

The results of research conducted by [Damanpour, \(1991\)](#) and [\(Ma'atoofi & Tajeddini, 2010\)](#) proves that the end result of business performance depends on a high level of innovation. The results of this study confirm the innovation theory proposed by [\(Zheng, Yang, & McLean, 2010\)](#) which states that innovation can simultaneously improve business performance. The results of these studies have also been previously conducted by [\(Al-Ansari, Pervan, & Xu, 2013\)](#) which indicates that there is a significant positive relationship between innovation and business performance. Furthermore, [Byukusenge & Munene, \(2017\)](#) supported that innovation has a positive effect on organizational performance. Based on these facts, H5 of This research is presuming that innovation affects performance

H6. Knowledge Management Affects Performance Through Business Innovation

The innovation process relies a lot on knowledge, especially because Knowledge represents a field (realm) much deeper than data, information and conventional logic; Therefore, the power of knowledge lies in its subjectivity, which underlies the values and assumptions that form the foundation for the learning process [\(Ikujiro Nonaka, o Nonaka, Ikujiro, & Takeuchi, 1995\)](#). [\(I Nonaka et al., 2002\)](#) states that Knowledge is a major resource and has an important role for achieving sustainable competitive advantage and performance achievement. As one of the competitive assets, knowledge must be possessed by every individual to be able to develop skills, so that through mastering knowledge and skills individuals can manage their own careers. Therefore, knowledge must be managed through a Knowledge management system which will then lead to

innovation and innovative behavior for knowledge management that will be able to function effectively if it trigger the innovations to support organizational performance. Based on these arguments, H6 of This study suspects that knowledge management will affect performance through innovation

H7 Talent Management Affects Performance through Business Innovation

[Axelrod et al., \(2001\)](#) suggests that talent management be used in business strategy and implemented in daily processes by the company as a whole [\(Lyria, 2014\)](#) In the results of his research found that talented resources will greatly affect the innovative power of the organization. Talented resources have a better ability in terms of innovation for the organization and this will also affect the performance achievement of these human resources. Based on this rational, H7 of this study suspects that talent management will affect performance through innovation

Research Design and Methodology

Research Design

This study uses a quantitative approach with the main data is data from the distribution of questionnaires to the respondents. the independent variables of this research are knowledge management and talent management while dependent variable is the performance of SMEs with innovation variable as the intervening variable. The distributed questionnaires were compiled based on the indicators of each variable by taking into account the main references used in this study. The complete structure of the questionnaire used in this study is as presented in table 2 as follows:



Tabel 2 : Research Questionnaire Structure Guide

Variabel	Item Questionnaire	Major Reference
Knowledge Management	Knowledge Identification	Becerra Fernandez Rajiv and Sabberwal (2010)
	Knowledge Creation	
	Knowledge Sharing	
	Knowledge Utilization	
Talent Management	Recruitment Process	Capelli(2008) Vaiman et al.,(2012) Poorhosseinzadeh and Subramaniam (2012) Lewis and Heckman,(2006)
	Retaining Talented Employee	
	Deloving	
Innovation	Technology Inovasi	Han et al(2009), Kuwantoto et al (2009)
	Product Innovation	
	Marketing Innovation	
	Managerial Innovation	
SMEs Performance	Sales Growth	Gunday et al, (2009), Munizu, (2010)
	Capital Growth	
	Employee Growth	
	Market and marketing Growth	

Samples

The sample in this study is small and medium business actors who already have professional management in South Sulawesi Province which were selected purposively through the following considerations (1) The company has a clear organizational structure (2) The company has developed the concept of research and development although on a minimum scale (3) The company employs a minimum of 10 employees (4) The company has been operating for a minimum of 5 years (4) Company assets are included in the small and medium business category. Based on these special criteria, it can be determined as many as 87 company owners who have the expected criteria. The description respondent demography is shown in table 2 as follow:

Tabel 2 : Respondent Demography

Attributes	Item	F	%
Gender	Men	128	64%
	Women	72	36%
Age (years)	25-30 year	37	18,5%
	31-40 year	136	68%



	>41 year	27	13,5%
Operational experience	5- 10 Years	97	48,5%
	11 – 15 Years	33	16,5%
	16 – 20 Years	46	23%
	>21 Years	24	12%
Income / Per-month (in million rupiahs)	< 100 million	138	69%
	100 –250 million	42	21%
	. >500 million	20	10%

Demographically, the sample of this study was dominated by male respondents as many as 128 people or 64%, respondents by age were dominated by respondents aged 31-40 years as many as 136 people or by 68%, most of the respondents had operated their business within a period of 5 to 10 years, namely as many as 97 people or 48%,5 from the income side of the respondents most of the respondents earn up to 100 million rupiahs per month

Measurement

The validity test used in this study is CFA (Confirmatory Factor Analysis) and for reliability testing, this study uses the Cronbach Alpha technique. Evaluation of construct validity, comparison of response patterns, and comparison of competing models are the three main applications of CFA in psychometric evaluation research ([Alavi, Visentin, Thapa, Hunt, Watson, Cleary, 2020](#)). The main criteria in the reliability test are as follows: when the Alpha coefficient is less than 0.60 it indicates a low level of reliability. But when the Alpha coefficient is more than 0.60 or close to 1.00, it can be said to be high reliability. All data analysis was processed by smart partial least square (PLS) software through two calculation stages. The first is an algorithm analysis to measure the feasibility of sizes on dimensions such as; validity and reliability (AVE, Cronbach alpha, and Critical Ratio). The second part; Bootstrapping analysis is used to determine the significance of the influences between the variables studied in this study so that the hypotheses used in this study can be answered

Result & Discussion

Statistics Test Results

Data analysis processed on PLS smart software which produces initial data that is used as a follow-up analysis in this study. As stated, good data is data that meets the required criteria, namely fulfillment of the loading factor standard with a value of $(\lambda) > 0.5$. From the results of the algorithm analysis that has been carried out, it proves all the values of loading factors generated are above 0.5 so that this shows the quality of the data that meets the criteria in further analysis in this study. The result of Algorithm analysis is shown in Figure 2 as follows:



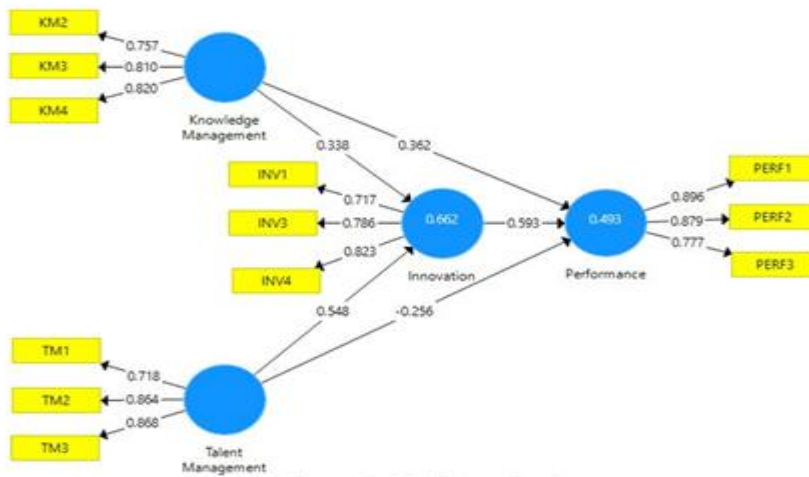


Figure 2: PLS Analysis (Algorithm Analysis Output)

The next analysis is an analysis to determine the level of good fit of the model, namely by knowing the Validity value of the AVE value and the value to determine the reliability of the data, where criteria for good data is the fulfillment of validity criteria with validity standard value is above 0.7 while the AVE value is above 0.5 then reliability for both composite reliability and Cronbach alpha with standard values above 0.6. the good of fit model for this research data is shown in table 4 as follow :

Tabel 3 : The Good of Fit Model

Variable	Items	Validity	AVE	Composite Reliability	Cronbach Alfa
Knowledge Management	KM2	0,757	0,633	0,838	0,716
	KM3	0,810			
	KM4	0,820			
Talent Management	TM1	0,718	0,672	0,859	0,764
	TM2	0,864			
	TM3	0,868			
Innovation	Inv1	0,717	0,603	0,820	0,670
	Inv2	0,786			
	Inv3	0,823			
SME's Performance	Perf1	0,896	0,727	0,888	0,811
	Perf2	0,879			
	Perf3	0,777			



Hypothesis Result

The results of hypothesis testing for each of the latent variable relationships presented in table 5 shows that knowledge management has a positive and significant effect on innovation (sig. p- value $0,000 < 0.05$ which means hypothesis H1=Accepted). Knowledge Management has positive and significant effect on SME's performance (sig. p-value $0.000 < 0.05$ means hypothesis H2=Accepted). Talent management has a significant effect on innovation (p-value $0.000 < 0.05$, means hypothesis H3=accepted).

Talent management has a positive and significant effect on SME's Performance (sig. P-value $0,001 < 0.05$ which means hypothesis H4=Accepted). Innovation has positive and significant effect on SME's performance (sig.p-value $0.000 < 0.05$ means hypothesis H5=Accepted).

The PLS output for indirect effect indicated that the effect of knowledge management on SME's Performance through innovation has positif and significant effect (sig.p-value $0,000 < 0,005$ means that hypothesis H6 = Accepted). The same result for the effect of talent management on SME's Performance through innovation also has positive and significant effect (sig.p-value $0,000 < 0,005$ means that hypothesis H7 = Accepted)

Tabel 4 : Hypothesis Result

	Sample Mean	Std.Deviation	T Statistic	P.Value
Knowledge Management toInnovation	0,338	0,049	6,878	0.000
Knowledfe Management toSME's Performance	0,362	0.059	6,148	0.000
Talent Management toInnovation	0.548	0.046	11,915	0.000
Talent Management on SME's Performance	-0.256	0.073	3,495	0.001
Innovation to SME's Performance	0,593	0,078	7,564	0,000
Knowledge Management to SME's Performance Through Innovation	0,200	0,039	5,155	0,000
Talent Management to SME's Performance Through Innovation	0,325	0,053	6,139	0,000



Discussion

The current development of SME's is getting faster, this is certainly a business opportunity that is open widely as well as a challenge for SME's business people. Customers who are increasingly enlightened and the massive development of technology and information is certainly a challenge for SME's today. Many studies and research then conclude that if SME's wants to survive and be able to take a role in today's increasingly dynamic competitive conditions, SME's must pay attention to factors that will affect performance which mainly concern on the business environment that is currently being faced. It is the business environment in the era of digital technology that emphasizes the importance of creativity and innovation.

Certainly, the innovative power of the organization is not born offhand, otherwise the innovation is the result of strategic management efforts in managing human resource capabilities in terms of knowledge and talents of the human resources in company. Knowledge and intellectual capital play a fundamental role in the modern enterprise, so it is widely recognized that knowledge-based assets will be the basis for success in XXI century (Wiig, 1997). Asset knowledge is also a key component of competitiveness. Therefore, it becomes a source of sustainable competitive advantage (Barney, 1991; Teece, 2000; Rothberg & Erickson, 2005; Nonaka, 2006) (Najmi et al., 2018)

From this explanation, it is important to know the extent to which knowledge management and talent management affect the performance that can be achieved by the company. This research is intended to answer these needs. The results of this study shows that management knowledge has a direct effect on innovation and performance, and also proves that

talent management has a direct effect on innovation and performance, this is in line with what was stated by (Barney, 1991; Teece, 2000; Rothberg & Erickson). , 2005; Nonaka, 2006)(Najmi et al., 2018),

The interesting thing in this study is the indication that innovation does not dominate management knowledge and talent management in achieving performance. This is contrary to the theory which explains that innovations born from management knowledge and talent management will improve company performance. It can be explained that this result is a fact that occurs in SME's, especially in Makassar City where the management of SME's still uses traditional management concepts and innovative problems. It indeed an inseparable part of the SME's owners themselves despite innovative behavior has been implemented in SME's management. However, there are more innovations that is incidental, not yet innovative results that are managed professionally in the context of innovation management that is integrated with management knowledge and talent management which is carried out in a structured manner by the company.

The facts generated from the research data show that of the four indicators used in the innovation variable, there are two invalid indicators so that they are not included in further analysis. The two invalid indicators are indicator 1 and indicator 4, each of which confirms to the respondents about technological innovation and managerial innovation. These two indicators have been responded to very diversely because not all SME's have implemented technological innovations, especially managerial innovations. The responses then become more diverse and depend on what is felt and carried out by each of SME's managed by the respondent. The reason why talent management and management knowledge have a direct effect on performance is



because in general business actors who have good scientific abilities and performance. Likewise the business actors with good talent, they will also perform well.

Practical Implication

The results of this study can be used as a reference for small and medium-sized business actors to start implementing the concept of knowledge management and talent management which is directed so that companies can be more flexible (agile) toward a very dynamic changes in an ever-changing environment because the assets based on intellectual capital will become an important factor for the success of the company in today's global era. The ability to manage knowledge and talent management will be very meaningful for the emergence of innovative and creative behavior which then becomes the driving force for achieving company performance

Theoretical Implication

Theoretically, the results of this research will strengthen theories discusses about human capital management issues, especially the importance of knowledge management and talent management. Through the results of this study, it can also be seen that the distribution of resource capabilities to achieve organizational performance can be done through the concept of knowledge management and talent management of the organization whose output can be in the form of policies, standard operating procedures and comprehensive rules intended to be an effective distribution medium of company resources in order to achieve performance as expected

Conclusion

The results of this study indicate that knowledge management and talent management are very important factors for SME's to improve their business performance, innovation becomes a management program to increase the company's added value and in the long term to improve the company's overall performance, In this study, innovation has a positive and significant effect on company performance.

This research result indicated that innovation can also be a tool to distribute the advantages of human resources that are managed properly through knowledge management and talent management. Empirical facts in the field related to innovation in SME's are still carried out incidentally and they are also face to face with competitors which then trigger the innovation occurs all the time and continues to change along with the developments and demands of the times. It means that innovative behavior will continue to create positive and repositioning between companies and other companies that do the same thing. Good knowledge and talent of the business actors are entrepreneurial traits that are inherent in every entrepreneur so that this will have a direct effect on performance.

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