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TALENT MANAGEMENT AND INNOVATION CAPACITY AS DETERMINANTS OF ECONOMIC PERFORMANCE AMONG LOCAL-WISDOM-BASED CREATIVE ENTERPRISES

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Abstract:

The creative economy is a sector that relies on creativity, knowledge, skills, and innovation to generate economic value added. The sustainability of creative enterprises is determined not only by their ability to produce unique products, but also by their capacity to manage talent and develop innovation capacity in response to changes in the business environment. This study aims to analyze the effects of talent management and innovation capacity on the economic performance of local-wisdom-based creative enterprises. The study employed a quantitative approach with an explanatory research design. Data were collected through questionnaires administered to 100 creative business actors using a five-point Likert scale. Talent management was measured using eight indicators, innovation capacity using six indicators, and economic performance using five indicators. The data were analyzed using Partial Least Squares-Structural Equation Modeling (PLS-SEM). The results show that talent management has a positive and significant effect on economic performance ($\beta = 0.322$; $t = 3.790$; $p < 0.001$). Innovation capacity also has a positive and significant effect on economic performance ($\beta = 0.444$; $t = 5.225$; $p < 0.001$). An R^2 value of 0.416 indicates that talent management and innovation capacity explain 41.6% of the variance in economic performance. The findings confirm that the ability to manage talent and develop innovation constitutes an important internal capability for improving the economic performance of creative enterprises. This study extends the application of the Resource-Based View to the context of local-wisdom-based creative enterprises by demonstrating the importance of combining human resources and innovation capacity in economic value creation.

Keywords: Talent Management; Innovation Capacity; Economic Performance; Creative Economy; Local Wisdom

INTRODUCTION

The creative economy has developed as an economic approach that positions creativity, knowledge, skills, innovation, and cultural expression as sources of economic value creation. The shift in economic structures from dependence on physical resources toward the utilization of intangible assets has made human creativity and the ability to generate new ideas increasingly important in creating value added. Irwansyah (2026) explains that the creative economy places human creativity, ideas, and cultural expression as key economic assets with the potential to promote economic growth, job creation, and sustainable development. In this context, creative business actors are required not only to produce attractive products but also to manage resources and internal capabilities so that creativity can be converted into economic value.

This context is increasingly relevant for creative enterprises that develop by utilizing local wisdom. Indonesia possesses rich cultural resources, traditions, skills, and local knowledge that can



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serve as resources for the creative economy. Irwansyah (2026) emphasizes that developing countries possess cultural wealth and traditional heritage that can be utilized as major resources in the creative economy, including handicrafts, traditional performing arts, distinctive culinary products, and various forms of local cultural expression. Utilizing these assets enables creative economic activities to develop while also creating opportunities for preserving cultural heritage. Accordingly, local wisdom in this study is positioned as a context embedded in the characteristics of creative enterprises rather than as a separate research variable.

Despite its considerable potential, the development of local-wisdom-based creative enterprises faces challenges in maintaining sustainability and improving economic performance. Creativity and cultural wealth do not automatically generate strong business performance unless they are supported by the capacity to manage human resources, develop products, respond to market changes, and utilize technological advances. Irwansyah (2026) identifies creative human resources and innovation capacity as internal factors influencing the development of the creative economy. The same work also positions technology and innovation as important factors in creative-economy development. Therefore, the success of creative enterprises should be understood not only in terms of product creativity but also in terms of the internal capacity of business actors to manage talent and build innovation capacity.

In the context of Bali, the relationship among internal resources, adaptability, innovation, and business sustainability is particularly important because many creative economic activities are closely associated with local culture and identity. A study by Telagawathi, Suci, and Heryanda (2021) on woven-handicraft MSMEs in Bali Province shows that MSME actors face pressure to adapt to digital developments, while limitations in technology and resources constitute one of the challenges in this process. The study emphasizes the importance of entrepreneurial capabilities in responding to economic digitalization and changes in the business environment.

These findings are reinforced by Telagawathi, Suci, and Heryanda (2022) in their study of digital transformation strategies among handicraft MSMEs in Gianyar Regency, Bali. Their study shows that handicraft MSMEs need to exploit their existing resources and undertake innovative measures to respond to changes in the business environment. These adaptation strategies include efforts to develop resources, acquire new capabilities, and capitalize on new opportunities arising from market and technological changes. This finding is relevant to local-wisdom-based creative enterprises because cultural resources must be accompanied by the capacity to adapt and develop them in accordance with market demands.

One strategic resource in creative enterprises is human capital possessing knowledge, skills, creativity, and the capacity to generate new ideas. In the creative economy, talent quality occupies an important position because value-creation activities depend heavily on individuals' ability to develop ideas and transform them into products or services with economic value. Irwansyah (2026) specifically identifies human capital and creative talent as determinants of the creative economy. This perspective provides a basis for viewing talent management as relevant not only to large corporations but also to creative enterprises that depend on creativity and skills as central components of the value-creation process.

This concept can be developed through the Resource-Based View (RBV), which regards internal resources as an important foundation for building advantage and generating performance. In this study, talent management is viewed as an approach to acquiring, developing, retaining, and utilizing the talent available within a business so that human resources can contribute to value creation. Recent empirical evidence from 1,721 SMEs in Spain indicates that talent management is positively associated with competitive performance and that innovation is one mechanism linking



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talent management to business outcomes. These findings indicate that talent management is increasingly relevant as a strategic capability rather than merely an administrative human-resource activity. In addition to talent management, innovation capacity constitutes an important internal capability for creative enterprises. Innovation capacity reflects a business's ability to develop and implement new ideas through improvements in products, processes, marketing, technology, or ways of creating value for consumers. In local-wisdom-based enterprises, innovation capacity enables cultural values and traditional knowledge to be developed into products that retain a local identity while adapting to changing consumer preferences. This is consistent with Irwansyah (2026), who positions technology and innovation as determinants of creative-economy development and emphasizes the importance of creative human resources within the creative-economy ecosystem.

Empirically, the importance of innovation capacity for business performance is also supported by recent research. Siregar et al. (2025), in a PLS-SEM study involving 218 MSME owners/managers in North Sumatra, found that cutting-edge innovation capability has a positive and significant effect on MSME performance. Another study involving 5,813 SMEs across 13 Latin American countries also found that innovation capability contributes to improving competitive advantage and market performance. These findings indicate that innovation capacity can serve as an important mechanism through which businesses transform resources and knowledge into economic outcomes.

The relationship between talent and innovation has also received increasing attention in strategic-management research. Rubio-Andrés et al. (2026) found that talent management is positively associated with competitive performance among SMEs, both directly and through innovation. Their study positions the ability to attract, develop, and retain talent as part of efforts to build an environment that supports creativity, learning, and collaboration. This finding strengthens the argument that human resources and innovation capability should not be viewed as separate dimensions in explaining business performance.

Although research on the creative economy, talent, innovation, and business performance has developed, further investigation is still needed in the context of local-wisdom-based creative enterprises. Studies by Telagawathi, Suci, and Heryanda (2021; 2022), for example, provide important insights into adaptability, digital transformation, resource utilization, and innovative measures among handicraft MSMEs in Bali. However, these studies have not quantitatively examined how talent management and innovation capacity jointly relate to the economic performance of creative enterprises. Meanwhile, recent studies on talent management and innovation have largely been conducted in general SME contexts, whereas creative enterprises that utilize local wisdom have more specific cultural and creative dimensions.

This gap indicates the need for research integrating talent management and innovation capacity to explain the economic performance of creative enterprises. This study assumes that the capacity to generate economic performance derives not only from resource ownership but also from business actors' ability to manage human resources with creative competencies and to develop innovation capabilities for value creation. Accordingly, this study positions talent management and innovation capacity as two internal determinants that can explain variation in the economic performance of local-wisdom-based creative enterprises.

This study has particular relevance because it combines a creative-economy perspective with an approach centered on resource management and internal capabilities. Irwansyah (2026) provides a foundation for viewing creative human resources and innovation capacity as important internal factors in creative-economy development, while the studies by Telagawathi, Suci, and Heryanda indicate that handicraft MSMEs in Bali require adaptability, resource utilization, and innovation to respond to changes in the business environment. Integrating these perspectives provides the basis



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for empirically examining the relationships of talent management and innovation capacity with the economic performance of creative enterprises.

Based on this rationale, the study aims to analyze the effect of talent management on economic performance and the effect of innovation capacity on the economic performance of local-wisdom-based creative enterprises. Theoretically, the study is expected to extend the application of the RBV perspective in the creative-economy context by positioning talent and innovation as internal resources and capabilities. Practically, the findings are expected to provide input for creative business actors in developing talent, strengthening innovation capacity, and optimizing local wisdom as a source of economic value creation.

METHODS

This study employed a quantitative approach with an explanatory research design to analyze the effects of Talent Management and Innovation Capacity on the Economic Performance of local-wisdom-based creative enterprises in Denpasar City, Bali. Local wisdom serves as the business context examined in this study and is not positioned as a separate variable.

The study involved 100 creative business actors as respondents. Data were collected using a questionnaire with a five-point Likert scale. The study comprised three variables: Talent Management (X1) with eight indicators, Innovation Capacity (X2) with six indicators, and Economic Performance (Y) with five indicators.

Data were analyzed using Partial Least Squares-Structural Equation Modeling (PLS-SEM). The measurement model was evaluated using outer loadings, Cronbach's Alpha, Composite Reliability, AVE, and HTMT. The structural model was subsequently evaluated based on R², path coefficients, t-statistics, and p-values. Significance testing was conducted using a bootstrapping procedure. The research model was formulated as follows:

$$Y = \beta_1 X_1 + \beta_2 X_2 + \varepsilon$$

Where: Y = Economic Performance, X1 = Talent Management, X2 = Innovation Capacity, and ε = error term.

RESULT AND DISCUSSION

Respondent Characteristics

This study involved 100 creative business actors in Denpasar City. Respondents represented several types of creative businesses and varied in business duration, number of employees, and monthly turnover.

Table 2. Respondent Characteristics

Characteristic	Category	Frequency	Percentage (%)
Business Type	Culinary	35	35.00
	Handicrafts	25	25.00
	Design/Creative	14	14.00
	Arts/Culture	14	14.00
	Fashion	12	12.00
Business Duration (years)	1-5	24	24.00
	6-10	27	27.00
	11-15	31	31.00
	>15	18	18.00
Number of Employees	1-5	52	52.00
	6-10	32	32.00



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Characteristic	Category	Frequency	Percentage (%)
Monthly Turnover*	>10	16	16.00
	≤10	24	24.00
	>10-20	33	33.00
	>20-30	21	21.00
	>30	22	22.00
Total		100	100.00

Source: Processed research data, 2026.

As shown in Table 2, the largest group of respondents operated culinary businesses (35%), followed by handicraft businesses (25%). In terms of business duration, the largest group had operated for 11-15 years (31%). Most respondents employed 1-5 employees (52%), while the largest monthly-turnover category was >10-20 (33%).

Descriptive Statistics

Descriptive statistics were used to describe the general pattern of respondents' responses to each research construct. The analysis included minimum, maximum, mean, and standard deviation values.

Table 3. Descriptive Statistics

Construct	N	Minimum	Maximum	Mean	Std. Deviation
Talent Management	100	2.38	5.00	3.648	0.557
Innovation Capacity	100	2.17	5.00	3.760	0.574
Economic Performance	100	2.20	5.00	3.622	0.563

Source: Processed research data, 2026.

The descriptive statistics show that Innovation Capacity had the highest mean value (3.760), followed by Talent Management (3.648) and Economic Performance (3.622). These values indicate that respondents generally provided relatively positive assessments of all three research constructs.

Measurement Model Evaluation

The measurement model was evaluated to ensure that the indicators adequately represented the research constructs. The evaluation included outer loadings, convergent validity through AVE, construct reliability through Cronbach's Alpha and Composite Reliability, and discriminant validity through HTMT.

Table 4. Outer Loading Values and Convergent Validity

Construct	Indicator	Loading	AVE
Talent Management	TM1	0.831	0.677
	TM2	0.826	
	TM3	0.806	
	TM4	0.848	
	TM5	0.784	
	TM6	0.855	
	TM7	0.813	
	TM8	0.815	
Innovation Capacity	KI1	0.853	0.713
	KI2	0.855	
	KI3	0.850	
	KI4	0.817	
	KI5	0.816	
	KI6	0.876	
Economic Performance	KE1	0.865	0.671



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Construct	Indicator	Loading	AVE
	KE2	0.767	
	KE3	0.871	
	KE4	0.774	
	KE5	0.814	

Source: Processed research data, 2026.

All indicators had outer loading values above 0.70. The AVE value of each construct was also above 0.50; therefore, all constructs met the criteria for convergent validity.

Table 5. Construct Reliability

Construct	Cronbach's Alpha	Composite Reliability	Decision
Talent Management	0.932	0.944	Reliable
Innovation Capacity	0.919	0.937	Reliable
Economic Performance	0.876	0.910	Reliable

Source: Processed research data, 2026.

Cronbach's Alpha values for all constructs were above 0.70, as were the Composite Reliability values. Therefore, all constructs demonstrated adequate internal consistency.

Table 6. HTMT Results

Construct	Talent Management	Innovation Capacity	Economic Performance
Talent Management	–	0.441	0.551
Innovation Capacity	0.441	–	0.638
Economic Performance	0.551	0.638	–

Source: Processed research data, 2026.

The HTMT values for all construct pairs were below 0.90. These results indicate acceptable discriminant validity among the constructs. Overall, the measurement-model evaluation shows that all indicators met the validity and reliability criteria.

Structural Model Evaluation

The structural model was evaluated to determine the extent to which Talent Management and Innovation Capacity explain variation in Economic Performance.

Table 7. Coefficient of Determination (R²)

Endogenous Construct	R ²	Interpretation
Economic Performance	0.431	Moderate

Source: Processed research data, 2026.

An R² value of 0.431 indicates that Talent Management and Innovation Capacity jointly explain approximately 43.1% of the variance in Economic Performance, while the remaining variance is explained by factors outside the research model.

Table 8. Effect Size (f²)

Structural Relationship	f ²	Interpretation
Talent Management → Economic Performance	0.155	Moderate
Innovation Capacity → Economic Performance	0.297	Moderate

Source: Processed research data, 2026.

The effect-size results show that Innovation Capacity makes a relatively greater contribution to Economic Performance than Talent Management.

Hypothesis Testing

Hypothesis testing was conducted based on path coefficients (β), t-statistics, and p-values. A relationship was considered significant when the p-value was < 0.05.



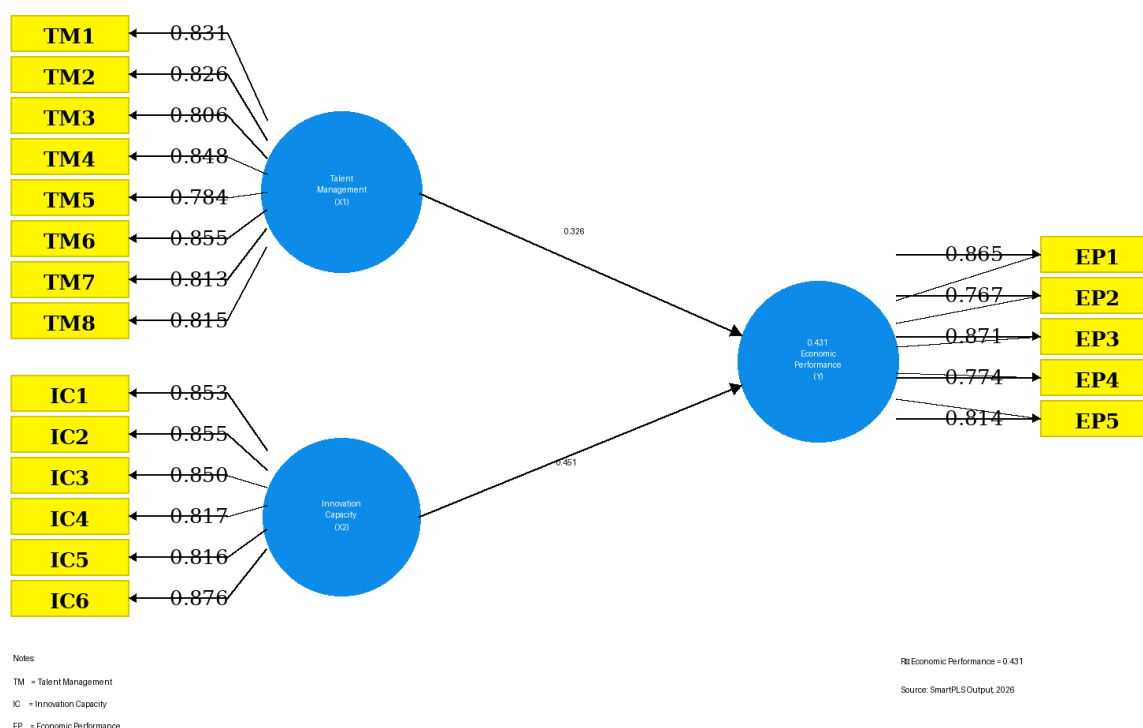
Table 9. Hypothesis Testing Results

Hypothesis	Relationship	β	t-statistic	p-value	Decision
H1	Talent Management → Economic Performance	0.326	4.115	<0.001	Supported
H2	Innovation Capacity → Economic Performance	0.451	5.906	<0.001	Supported

Source: Processed research data, 2026.

The results show that Talent Management has a positive and significant effect on Economic Performance, with a coefficient of 0.326, a t-statistic of 4.115, and a p-value < 0.001. Innovation Capacity also has a positive and significant effect on Economic Performance, with a coefficient of 0.451, a t-statistic of 5.906, and a p-value < 0.001.

PLS-SEM Model Results



Source: Processed research data, 2026.

Based on the PLS-SEM model, Talent Management has a path coefficient of 0.326 for Economic Performance, while Innovation Capacity has a coefficient of 0.451. The R^2 value of 0.431 indicates that these two variables jointly explain 43.1% of the variance in Economic Performance.

Effect of Talent Management on Economic Performance

The results show that Talent Management has a positive and significant effect on the Economic Performance of creative business actors in Denpasar City, with a path coefficient of 0.326, a t-statistic of 4.115, and a p-value < 0.001. This result indicates that better talent management within a business is associated with stronger economic performance.

This finding indicates that talent management concerns not only the acquisition of employees but also how business actors develop capabilities, retain competent employees, provide recognition, and involve individuals in business development. In the creative-economy context, human capabilities are important because creativity, knowledge, and skills constitute primary sources of



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economic value creation. Irwansyah (2026) identifies human capital and creative talent as important factors in the development of the creative economy.

The results are also consistent with Rubio-Andrés et al. (2026), who studied 1,721 SMEs in Spain and found a positive and significant effect of talent management on competitive performance. Their study also indicates that innovation can serve as a mechanism linking talent management to firm performance.

In the context of creative business actors in Denpasar City, these findings can be understood in light of the characteristics of creative enterprises, which depend heavily on human capabilities to generate ideas, maintain product quality, understand consumer needs, and develop value-added products. Talent management therefore forms part of a business's internal capacity to optimize human resources in support of economic performance.

Effect of Innovation Capacity on Economic Performance

The results show that Innovation Capacity has a positive and significant effect on Economic Performance, with a path coefficient of 0.451, a t-statistic of 5.906, and a p-value < 0.001. This result indicates that business actors' ability to generate, develop, and implement new ideas is associated with improved economic performance.

Innovation capacity enables business actors to introduce improvements in products, processes, marketing, and the use of technology. In the creative economy, this capability is important because changing consumer preferences and technological developments require businesses to continually adapt. Irwansyah (2026) explains that technology and innovation are important drivers of change and growth in the creative economy because technological developments alter the ways in which creative products and content are produced, distributed, and consumed.

This finding is consistent with Siregar et al. (2025), who applied PLS-SEM to 218 MSME owners/managers in North Sumatra and found that cutting-edge innovation capability has a positive and significant effect on MSME performance.

This finding is also relevant to the studies by Telagawathi, Suci, and Heryanda on handicraft MSMEs in Bali. Their research shows that handicraft MSME actors face demands to adapt to environmental change and need to exploit resources and undertake innovative measures to sustain their businesses.

In Denpasar City, innovation capacity is important because creative business actors are required not only to produce products containing local elements but also to package and develop those products in accordance with market needs. Local wisdom can therefore remain part of product identity, while innovation enables products to adapt to market changes.

Research Implications

The findings imply that improving the economic performance of creative business actors depends not only on the ability to produce creative products but also on talent management and innovation capacity. Strengthening talent management can be directed toward skill development, providing employees with opportunities to generate ideas, and involving employees in business development. Innovation capacity can be strengthened through product development, technology adoption, business-process improvement, and exploration of marketing strategies. This is consistent with Irwansyah (2026), who argues that creative-economy development is closely related to human creativity, innovation, technology, and the utilization of cultural potential as a source of economic value.



CONCLUSION

Conclusion

This study aimed to analyze the effects of Talent Management and Innovation Capacity on the Economic Performance of local-wisdom-based creative business actors in Denpasar City, Bali. Based on the PLS-SEM analysis of 100 respondents, Talent Management has a positive and significant effect on Economic Performance. This result indicates that talent management through capability development, utilization of individual potential, participation, and human-resource management is one factor supporting improvements in the economic performance of creative enterprises.

Innovation Capacity also has a positive and significant effect on Economic Performance. This finding indicates that business actors' ability to generate and implement improvements in products, processes, technology, and marketing strategies is associated with improved business economic performance. In the context of local-wisdom-based creative enterprises in Denpasar City, innovation is important because it enables business actors to preserve local characteristics while adapting products and business activities to changing market needs.

Overall, the findings show that strengthening human resources through Talent Management and strengthening the ability to innovate through Innovation Capacity are two dimensions associated with the Economic Performance of creative business actors. The research model produced an R^2 value of 0.431, indicating that Talent Management and Innovation Capacity jointly explain 43.1 % of the variance in Economic Performance, while the remaining variance is explained by factors outside the model.

Implications

Practically, the findings imply that creative business actors need to pay attention not only to product development but also to the management of talent involved in the business. Competency development, opportunities for generating new ideas, involvement in decision-making, and utilization of individual capabilities can form part of talent management in creative enterprises.

With respect to innovation, business actors can strengthen their capacity to improve products, work processes, technology utilization, and marketing strategies. These efforts can be undertaken while retaining local-wisdom elements as distinctive product characteristics. Thus, local wisdom can function not only as a business identity but also as a source for developing creativity and innovation.

Research Limitations

This study involved 100 respondents and only two independent variables, namely Talent Management and Innovation Capacity. The R^2 value of 0.431 also indicates that variation in Economic Performance remains attributable to factors outside the model. Future studies could consider other relevant variables, such as entrepreneurial orientation, financial literacy, digital transformation, access to capital, or market orientation, and could expand the number and characteristics of respondents to obtain a more comprehensive understanding of the determinants of economic performance among creative business actors.

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