

**The Mediating Role of Innovation in the Relationship Between  
Talent Management and Competitive Advantage: An Empirical  
Study on Lebanese Small and Medium Enterprises (SMEs)**

**الدور الوسيط للابتكار في العلاقة  
بين إدارة المواهب والميزة التنافسية:  
دراسة تجريبية على المؤسسات الصغيرة والمتوسطة اللبنانية**

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**Abstract**

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This study investigates the pivotal mediating role of organizational innovation in linking talent management (TM) to competitive advantage (CA) within Lebanon's challenging business environment. Given the country's persistent and deep economic crisis, institutional fragility, and significant brain drain, Lebanese firms face severe existential challenges. The research posits that strategic talent management, by actively fostering innovation, provides a crucial pathway to organizational resilience and sustained competitive survival. Utilizing a quantitative, cross-sectional design, primary data were collected from 250 senior managers and HR professionals working across Lebanese Small and Medium Enterprises (SMEs). Hypotheses were tested using Ordinary Least Squares (OLS) regression and Hayes' PROCESS macro for SPSS to analyze mediation effects. The findings reveal that talent management exhibits a strong positive direct effect on both organizational innovation and competitive advantage. Furthermore, organizational innovation, in turn, significantly enhances competitive advantage. Crucially, the results confirm the main hypothesis: organizational innovation partially mediates the relationship between talent management and competitive

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advantage. This implies that while talent management offers direct benefits, a substantial portion of its impact on a firm's competitive standing is realized through its capacity to drive innovation. The study contributes to the strategic management literature by empirically validating this mediated mechanism within a context of extreme environmental adversity, thereby reinforcing the practical relevance of the Resource-Based View

and Dynamic Capabilities Theory. Practically, it offers urgent, actionable insights for Lebanese business leaders, underscoring that investing in and empowering talent to innovate is not a luxury, but a fundamental strategy for survival and economic recovery.

**Keywords:** Talent Management, Innovation, Competitive Advantage, Resource-Based View, Dynamic Capabilities, Mediation Analysis, Lebanon.

### الملخص

الفرضيات باستخدام تحليل الانحدار للمربعات الصغرى العادية (OLS)، وماكرو PROCESS لهايز في برنامج SPSS لتحليل تأثيرات الوساطة.

تُظهر النتائج أن إدارة المواهب لها تأثير مباشر إيجابي وقوي على كل من الابتكار التنظيمي والميزة التنافسية. بالإضافة إلى ذلك، فإن الابتكار التنظيمي نفسه يعزز الميزة التنافسية بشكل كبير. والأهم من ذلك، تؤكد النتائج الفرضية الرئيسية: يتوسط الابتكار التنظيمي جزئياً العلاقة بين إدارة المواهب والميزة التنافسية. وهذا يعني أنه في حين توفر إدارة المواهب فوائد مباشرة للشركات، فإن جزءاً كبيراً من تأثيرها على مكانة الشركة التنافسية يتحقق من خلال قدرتها على دفع عجلة الابتكار.

تُسهّم هذه الدراسة في أدبيات الإدارة الاستراتيجية من خلال التحقق التجريبي

تستقصي هذه الدراسة الدور الوسيط المحوري للابتكار التنظيمي في ربط إدارة المواهب (TM) بالميزة التنافسية (CA)، ضمن بيئة الأعمال الصعبة التي يواجهها لبنان. نظراً للأزمة الاقتصادية العميقة والمستمرة التي تمر بها البلاد، والهشاشة المؤسسية، والهجرة الكبيرة للكفاءات، تواجه الشركات اللبنانية تحديات وجودية قاسية. تفترض الدراسة أن إدارة المواهب الاستراتيجية، من خلال تعزيزها النشاط للابتكار، توفر مساراً حيويًا للمرونة التنظيمية والبقاء التنافسي المستدام.

باستخدام تصميم بحث كمي مستعرض، تم جمع البيانات الأولية من 250 من كبار المديرين ومتخصصي الموارد البشرية العاملين في المؤسسات الصغيرة والمتوسطة اللبنانية (SMEs). وتم اختبار

أن الاستثمار في المواهب وتمكينها من الابتكار ليس ترفاً، بل استراتيجية أساسية للبقاء والتعافي الاقتصادي. الكلمات المفتاحية: إدارة المواهب، الابتكار، الميزة التنافسية، نظرية الموارد، القدرات الديناميكية، تحليل الوساطة، لبنان.

## 1.Introduction

### 1.1 The Strategic Imperative of Talent and Innovation

In today's dynamic global economy, competitive advantage increasingly depends on intangible, knowledge-based resources rather than physical assets or capital (Rabbi et al., 2015). This shift is particularly critical in volatile environments where traditional financial levers are unavailable. Two capabilities have emerged as central to navigating such instability: talent management (TM) and organizational innovation. While TM has evolved into a strategic priority to attract, develop, and retain high-potential employees, the mere possession of talent is insufficient for survival. Instead, Organizational Innovation acts as the necessary mechanism that transforms human capital into competitive survival. In this context, innovation is not a luxury for market leadership but the fundamental tool for adaptation, enabling firms to optimize processes and develop

من هذه الآلية الوسيطة في سياق يواجه فيه تحديات بيئية قصوى، مما يعزز الصلة العملية لنظرية الاعتماد على الموارد ونظرية القدرات الديناميكية. وعلى المستوى العملي، تقدم الدراسة رؤى عاجلة وقابلة للتنفيذ لقادة الأعمال اللبنانيين، مؤكدة

novel business models when external resources are scarce. Thus, the “war for talent” is effectively a war for the capacity to innovate and adapt in the face of existential threats.

### 1.2 Problem Statement: Navigating the Crisis in the Lebanese Business Environment

Innovation as a Survival Mechanism in a Resource-Constrained Context While the Lebanese economic downturn provides the backdrop for this study, the core business problem addressed is the mechanism of survival amidst resource scarcity. In stable economies, competitive advantage (CA) might stem from physical assets or capital. However, in the current Lebanese context, characterized by banking collapse and currency devaluation, traditional resources have lost their strategic value. Consequently, the “brain drain” of skilled professionals represents the loss of the only remaining viable asset: human capital. This research addresses a theoretical

and practical gap: understanding how firms transform raw human talent into tangible competitive outcomes when financial capital is unavailable. We posit that Talent Management (TM) alone is insufficient to generate CA in this environment. Instead, TM must be channeled through Organizational Innovation, acting as a dynamic capability, to result in competitive advantage. The crisis is not merely a setting but the boundary condition that necessitates the shift from static resource accumulation to dynamic innovation. Therefore, this study isolates Organizational Innovation not just as an element of CA, but as the distinct transformative process that bridges the gap between acquiring talent and achieving market superiority.

### 1.3 Research Objectives and Questions

The main goal of this study is to put to the test a mediation model that suggests organizational innovation is the crucial link through which talent management impacts competitive advantage, specifically in Lebanese firms. To reach this goal, the study has a few secondary objectives:

1. To what extent do strategic Talent Management practices directly influence the Competitive Advantage of Lebanese SMEs?

2. How does Talent Management function as an antecedent to Organizational Innovation within the firm?
3. Does Organizational Innovation mediate the relationship between Talent Management and Competitive Advantage, effectively explaining how human capital is transformed into market performance?

These objectives are driven by the key research question:

Does organizational innovation act as a mediator between talent management and competitive advantage in the Lebanese business landscape?

### 1.4 Significance and Contribution of the Study

This research is set to make a real impact on our understanding of strategic management, especially in times of crisis.

**Theoretical Contribution:** Validates the TM–Innovation–CA link and shows how human talent, as a VRIN resource, drives competitive advantage through innovation. Tests RBV and Dynamic Capabilities theory in a highly hostile environment, extending their relevance beyond stable economies (McDonnell et al., 2017).

**Practical Contribution:**

Demonstrates that talent management and fostering innovation are essential strategies for resilience and survival in Lebanon, guiding managers on effective human capital investment even with limited financial resources.

**Contextual Contribution:**

Provides rare quantitative evidence on strategic management in Lebanon, addressing challenges like brain drain and instability while highlighting local strengths such as an educated, resilient workforce (Tlaiss, 2020; El Khoury, 2015; CME, 2022).

**2.Theoretical Framework and****Literature Review**

This chapter lays the groundwork for our study by diving into the essential literature surrounding the Resource-Based View (RBV), Dynamic Capabilities theory, talent management, organizational innovation, and competitive advantage. It weaves together these research threads to create a solid conceptual framework for the proposed mediation model, all while focusing on the unique context of the Lebanese business landscape.

**2.1 Foundational Perspectives:****The Resource-Based View (RBV) and Dynamic Capabilities**

The foundation of this research is built on two key perspectives in strategic management: the Resource-Based View (RBV) and Dynamic Capabilities theory.

The Resource-Based View suggests that a firm's sustainable competitive advantage comes not from its position in the market, but from its unique set of internal resources and capabilities (Adamu et al., 2024). This theory highlights that firms are made up of diverse resources, and these differences tend to last over time. For a resource to truly provide a sustained competitive edge, it needs to have four essential characteristics, commonly known by the acronym VRIN: it should be Valuable (helping the firm seize opportunities or fend off threats), Rare (not widely held by competitors), Imperfectly Imitable (hard for others to replicate), and non-substitutable (lacking strategic alternatives) (Adamu et al., 2024). In today's knowledge-driven economy, skilled human capital, encompassing creativity, expertise, and organizational knowledge, is increasingly recognized as the ultimate VRIN resource, as it's inherently tough to imitate and transfer (Rabbi et al., 2015).

While the Resource-Based View (RBV) is a powerful concept, it has faced some criticism for being

somewhat static. It tends to focus more on the resources a firm possesses rather than how those resources are utilized in ever-changing environments. This critique paved the way for the Dynamic Capabilities framework (Teece, 2018). This framework serves as an important extension to tackle the limitations of RBV. At its core, dynamic capabilities are defined as “the firm’s ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments” (Teece, 2018). Understanding this perspective is vital for grasping how companies can achieve and maintain a competitive edge in unpredictable markets, where the value of existing resources can diminish quickly (Teece, 2018). Dynamic capabilities represent higher-order processes that empower a firm to identify new opportunities, capitalize on them by creating new products or services, and adjust or reconfigure its asset base as needed (Helfat & Peteraf, 2015; Sultana et al., 2022). Within this framework, a firm’s ability to innovate organizationally is seen as a key dynamic capability (Ferreira et al., 2021).

The situation in Lebanon offers a truly unique backdrop to explore the core ideas behind these theories. The ongoing economic crisis has stripped away or significantly diminished many

of the essential resources, like financial capital, physical infrastructure, and reliable supply chains, those businesses in more stable economies typically depend on. As a result, Lebanese companies find themselves competing mainly based on their intangible assets, particularly their knowledge and expertise. This creates a kind of “natural experiment” where we can clearly see how human capital, managed through talent management, and the ability to adapt, shown through innovation, directly influence a company’s survival and success. The Resource-Based View (RBV) and Dynamic Capabilities aren’t just theoretical concepts; they capture the essential logic of staying afloat in such a challenging environment.

## 2.2 Talent Management:

### From Human Capital to Competitive Advantage

Talent management is all about taking a strategic and comprehensive approach to handling an organization’s most valuable asset: its people. It includes a variety of interconnected HR practices, such as bringing in new talent, developing employees, managing performance, planning for future leadership, and keeping top performers on board (Son et al., 2020; Atrizka et al., 2020). The main

aim of talent management is to make sure that the organization has the right individuals with the right skills in the right positions at the right time, all to meet its strategic goals (Narayanan et al., 2019). This method stands apart from traditional personnel management because it focuses more on strategy, emphasizes the importance of a diverse workforce (often honing in on high-potential and high-performing individuals in key roles), and aligns closely with the overall business strategy (Son et al., 2020).

There's a solid body of research that shows a strong connection between effective talent management practices and better organizational results. Studies indicate that integrated talent management practices, especially in attracting, developing, and retaining talent, play a significant role in giving a company a sustainable competitive edge (Rabbi et al., 2015; Thwala & Koorts, 2024). Companies that are great at managing their talent tend to see higher financial performance, increased employee productivity, greater job satisfaction, and lower turnover intentions (Memon et al., 2021).

The way this relationship works can be explained using concepts like Social Exchange Theory. According to this theory, when an organization invests in its employees through talent

management practices, like offering development opportunities, career support, and fair rewards, employees often feel a sense of duty to give back. This sense of reciprocity shows up as greater engagement, stronger commitment to the organization, and extra effort, all of which help boost performance and give the organization a competitive advantage. In short, talent management creates a psychological contract that encourages skilled employees to fully utilize their abilities for the organization's benefit.

### 2.3 Innovation as a Dynamic Capability for Market Leadership

Organizational innovation is all about coming up with and putting into action fresh ideas, products, processes, or business models that create value for both the company and its stakeholders. It's a complex concept that can be broken down into a few categories: product innovation (think new goods and services), process innovation (new ways of producing or delivering), and marketing or administrative innovation (new organizational structures or market strategies) (Al-Ghazali et al., 2023). In the fast-paced world of business today, innovation isn't just a nice-to-have; it's a crucial factor for long-

term growth and staying competitive (Suardi et al., 2022). By continuously innovating, companies can offer unique products, build strong defenses against competitors, and adapt to changing customer needs, which helps them maintain a strong position in the market (Hassen et al., 2024).

A wealth of research has shown a clear and positive link between a company's ability to innovate and its competitive edge and overall performance (Ferreira et al., 2020). Businesses that successfully roll out strategic innovations see notable gains in market share, operational efficiency, and brand distinction (Adamu et al., 2024). Innovation plays a key role in turning business strategies into real competitive advantages (Suardi et al., 2022). As a dynamic capability, innovation empowers a company to reshape its resources and routines to meet or even create new market opportunities, ensuring it stays relevant and profitable over time (Teece, 2018).

#### **2.4 The Nexus: How Talent Management Fosters Organizational Innovation**

The connection between talent management and organizational innovation is both direct and mutually beneficial. Talented individuals are the driving force behind creativity

and fresh ideas in any organization. However, to truly unlock their potential, they need to be in an environment that encourages and supports innovative thinking (Tajeddini et al., 2017). That's where strategic talent management comes into play, providing just the right atmosphere.

Research highlights several ways that talent management can boost innovation. First off, having effective processes for attracting and selecting talent allows companies to find and bring on board people who possess the creativity, cognitive abilities, and entrepreneurial spirit needed (Rabbi et al., 2015). Next, strong talent development initiatives, like training and career growth opportunities, help employees enhance their skills and knowledge, which in turn boosts their ability to tackle complex challenges and come up with innovative solutions (Jooss et al., 2024).

Additionally, talent management plays a key role in shaping an organizational culture that supports innovation. This involves creating a sense of psychological safety, encouraging knowledge sharing, and establishing a common vision that promotes experimentation and smart risk-taking (Tajeddini et al., 2017). Lastly, effective talent retention ensures that innovative individuals

and their valuable knowledge stay within the organization, building a rich knowledge base that drives future innovation (Alnaimy et al., 2024).

There's a wealth of empirical evidence backing this connection. Research across a variety of industries and settings has consistently shown that talent management (TM) practices have a notably positive effect on different types of innovation, such as product, process, and marketing innovations (Al-Ghazali et al., 2023; Yıldız & Ay, 2021). Additionally, studies indicate that TM can boost a company's performance, but this impact is often influenced by the firm's ability to innovate. This suggests that innovation plays a crucial role in turning talent into market success (Jooss et al., 2024).

### **2.5 Contextualizing the Model: Talent, Innovation, and Competition Amidst the Lebanese Crisis**

Applying this theoretical framework to Lebanon uncovers a complex and somewhat contradictory scenario. On one side, Lebanon has long been celebrated for its impressive human capital, boasting a well-educated, multilingual, and resilient workforce, especially in areas like math and

science (CME, 2022; IMF, 2017). This is a remarkable reservoir of raw talent. Yet, when it comes to formal innovation metrics, the country's performance leaves much to be desired. The Global Innovation Index (GII) consistently places Lebanon in a modest position, particularly highlighting its low scores in "innovation inputs" like infrastructure and institutions (WIPO, 2024; WIPO, 2025). This gap signals a systemic failure in how existing talent is managed and utilized. The issue isn't a shortage of talent; rather, it's a breakdown in the organizational and institutional processes that should transform that raw talent into economic value and innovation.

This is exactly the challenge that strategic talent management (TM) aims to tackle. However, in Lebanon, TM practices often lag behind. Research shows that many Lebanese companies, especially small and medium-sized enterprises (SMEs), struggle with outdated management practices and encounter significant hurdles in developing and implementing effective strategic TM systems (Ismail & Gali, 2017). These firms face considerable obstacles in rolling out TM systems, largely due to the prevalence of traditional management styles and the ongoing risk of talent migration (Ismail & Gali, 2017).

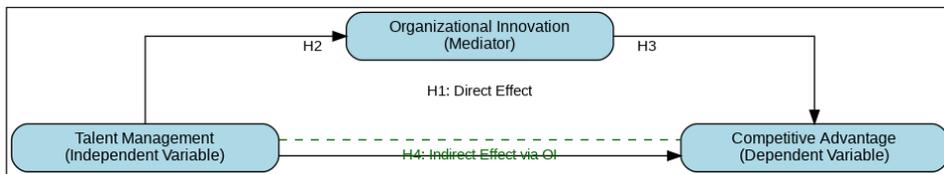
The competitive edge for Lebanese companies is quite distinct. Without the benefits of economies of scale or a stable economic backdrop, these firms often find their advantage in being agile, specializing in niche markets, showcasing strong problem-solving abilities, and leveraging a diverse workforce (CME, 2022; LCPS, 2019). These traits are fundamentally tied to human capital. This study aims to explore a potential solution to a well-known national economic paradox. It suggests that by embracing more systematic and strategic talent management practices, Lebanese firms can tap into their inherent human capital more effectively, address institutional shortcomings, and foster the kind of

adaptive innovation needed to create a competitive advantage and navigate the ongoing crisis.

### 3. Conceptual Model and Hypotheses

Building on the theoretical foundations of the Resource-Based View and Dynamic Capabilities theory, and drawing insights from the existing empirical literature, this study introduces a conceptual model aimed at exploring the connections between talent management, organizational innovation, and competitive advantage. As illustrated in Figure 1, the model suggests that organizational innovation serves as a key mediator in the relationship between talent management and competitive advantage.

Figure 1: Conceptual Model



#### 3.1 The Direct Effect of Talent Management on Competitive Advantage (H1)

Talent management contributes directly to competitive advantage because unique and hard-to-imitate resources, especially skilled human capital, strengthen a firm's strategic position (Adamu et al., 2024; Rabbi

et al., 2015). Through attracting, developing, and retaining talented employees, organizations build a workforce that rivals find difficult to replicate (Thwala & Koorts, 2024). This enhances efficiency, service quality, customer relations, and strategic performance, ultimately improving competitive advantage

(Aina & Atan, 2020). Therefore, firms with stronger talent management practices are expected to achieve superior competitive outcomes.

**H1: Talent management has a significant positive effect on competitive advantage.**

### **3.2 The Link Between Talent Management and Innovation (H2)**

Innovation stems from human creativity, knowledge, and collaboration (Tajeddini et al., 2017), and effective talent management significantly strengthens this capability. Attracting creative and entrepreneurial individuals boosts an organization's innovative potential (Rabbi et al., 2015), while comprehensive development programs equip employees with diverse skills for innovative problem-solving (Jooss et al., 2024). Supportive talent practices also foster psychological safety and knowledge sharing, encouraging experimentation and idea generation (Tajeddini et al., 2017). Empirical studies demonstrate a positive relationship between talent management and organizational innovation (Al-Ghazali et al., 2023; Yıldız & Ay, 2021). Thus, firms that invest in talent management are more likely to achieve higher levels of innovation.

**H2: Talent management has a significant positive effect on organizational innovation.**

### **3.3 The Impact of Innovation on Competitive Advantage (H3)**

Viewed through Dynamic Capabilities theory, innovation is a central mechanism that enables firms to adapt to and shape competitive environments (Sultana et al., 2022). Companies that innovate, rather than rely on outdated products or processes, can differentiate themselves through unique value propositions (Hassen et al., 2024). Product innovation offers benefits such as first-mover advantages and premium pricing, while process innovation enhances efficiency and reduces costs (Al-Ghazali et al., 2023). By continually renewing their offerings and operations, innovative firms build strong market positions, create imitation barriers, and achieve sustained superior performance (Suardi et al., 2022). Thus, the link between innovation and competitive advantage is a well-established principle in strategic management.

**H3: Organizational innovation has a significant positive effect on competitive advantage.**

### **3.4 The Mediating Effect of Innovation (H4)**

This study proposes a mediated relationship in which talent management enhances competitive advantage primarily by strengthening organizational innovation. Although talent management has direct benefits, its greatest strategic impact emerges when the talent it develops is channeled into innovative activity (Jooss et al., 2024). Talent provides the essential input, while innovation transforms that input into market value. Without supportive structures, culture, and strategic orientation, even highly skilled employees cannot fully contribute to innovation. Conversely, strong talent management fosters an environment where ideas can grow and reach the market, thereby improving competitive positioning. Thus, much of talent management's influence on competitive advantage is likely realized indirectly through enhanced innovation capabilities.

**Clarifying the Mediating Mechanism:** This model posits a distinct causal chain appropriate for the study's title. Here, Talent Management represents the Input (the reservoir of VRIN resources as per RBV), while Competitive Advantage represents the Outcome (market position). Organizational Innovation is conceptualized here not as the outcome itself, but as the Transformative Process (Dynamic Capability).

The mediation logic suggests that possessing talent is static; the competitive advantage is only realized when that talent is actively deployed to create new products, processes, or models. Therefore, Innovation explains how Talent Management leads to Competitive Advantage: by converting human potential into dynamic market responsiveness. This distinction validates the role of Innovation as a mediator rather than a dependent variable in this specific context.

**H4: Organizational innovation mediates the positive relationship between talent management and competitive advantage.**

#### 4. Research Design and Approach

This chapter lays out the methodological framework that was used to empirically test the hypotheses we developed in the previous chapter. It goes into detail about the research design, the characteristics of the target population and sample, the procedures for collecting data, how we operationalized and measured the study's constructs, and the statistical strategy we employed for analyzing the data.

#### 4.1 Research Design

To explore the proposed relationships, this study utilized a

quantitative, cross-sectional research design. This method is well-suited for analyzing the connections between variables at a specific moment and is commonly employed in management research to evaluate theoretical models (Abou-Moghli, 2021). Data was gathered through a structured survey questionnaire distributed to senior-level managers and HR professionals in Lebanese companies. This approach enables the effective collection of perceptual data regarding organizational practices and performance from informed sources.

#### 4.2 Population and Sample

##### Characteristics

Population, Sampling Technique, and Selection Criteria The study targeted the population of Small and Medium Enterprises (SMEs) in Lebanon, specifically within sectors identified as reliant on human capital: technology, professional services, light manufacturing, and agro-food.

##### Sampling and Selection Process:

Due to the absence of a comprehensive national registry, a purposive non-probability sampling technique was employed. This method was selected to ensure respondents possessed the specific strategic knowledge required to answer questions regarding talent and innovation. The inclusion criteria for the sample were:

**Firm Size:** SMEs employing between 10 and 250 staff members.

**Respondent Role:** Senior managers or HR leaders capable of assessing strategic organizational capabilities.

**Operational Status:** Firms currently active despite the economic downturn.

From an initial outreach based on business directories, a final valid sample of 250 respondents was secured, providing sufficient statistical power for mediation analysis using the PROCESS macro.

#### 4.3 Data Collection

Data was gathered over a span of three months through an online survey platform. We started by putting together a list of potential companies sourced from business directories and professional networks. These companies were then reached out to via email, inviting them to take part in the study. The email outlined the research's purpose, guaranteed the confidentiality and anonymity of their responses, and included a link to the online questionnaire. To boost the response rate, we sent follow-up reminders to those who hadn't responded yet.

#### 4.4 Measurement of Constructs

In this study, we measured all constructs using multi-item scales that

were adapted from well-established and validated research found in high-impact academic journals. This method helps ensure that our measures are both valid and reliable. We utilized a 5-point Likert scale for all items, where 1 means “Strongly Disagree” and 5 means “Strongly Agree.” You can find the complete questionnaire in Appendix A.

**Talent Management (Independent Variable):** We measured this concept using a 12-item scale that we adapted from the work of Aina and Atan (2020) and Thwala and Koorts (2024). This scale looks at three key areas of Talent Management: talent attraction (for instance, “Our organization has a strong employer brand that draws in top talent”), talent development (like, “We offer our talented employee’s clear paths for career growth”), and talent retention (such as, “Our compensation and rewards system effectively keep our best employees on board”).

**Organizational Innovation (Mediating Variable):** We assessed this concept with a 9-item scale adapted from Ferreira et al. (2020) and Al-Ghazali et al. (2023). This scale gauges how likely a firm is to engage in various types of innovation. Some example items include: “In the past three years, we’ve regularly launched new products/services into the market”

(Product Innovation), “We are always looking to enhance our operational processes for better efficiency” (Process Innovation), and “We frequently try out new managerial and administrative methods” (Administrative Innovation).

**Competitive Advantage (Dependent Variable):** We evaluated this concept using a 10-item scale adapted from foundational research on competitive strategy (Adamu et al., 2024) and validated in the context of Lebanese SMEs by El Khoury and Lattouf (2020). This scale measures how a firm perceives its performance compared to its main competitors across essential competitive strategy dimensions. Sample items include: “Compared to our competitors, we have a lower cost structure,” “Our products/services are of significantly higher quality than those of our competitors,” and “Our firm excels at differentiating its offerings in the market.”

**Control Variables:** To ensure we account for any potential confounding factors, we included firm size (which we measured by the number of employees) and firm age (measured in years) as control variables in our regression analyses.

#### 4.5 Analytical Strategy

The data were analyzed in IBM SPSS Version 28, beginning with

descriptive statistics and a Pearson correlation matrix to understand variable patterns and check for multicollinearity. Scale reliability was then assessed using Cronbach's alpha. Mediation testing for H4 was conducted with Hayes' PROCESS macro (Model 4), which improves on traditional approaches by avoiding assumptions of normality for indirect effects and instead using bootstrapped confidence intervals (Hayes & Rockwood, 2017). Using 5,000 bootstrap resamples, we estimated the indirect effect of talent management on competitive advantage through innovation, with mediation deemed present when the 95% confidence interval excluded zero. This method offers a more robust and powerful way to test the mediation hypothesis.

The analysis involved estimating three regression equations:

1. The effect of the independent variable (Talent Management) on the mediator (Organizational Innovation) - **Path a**.
2. The effect of the mediator (Organizational Innovation) on the dependent variable (Competitive Advantage), controlling for the independent variable - **Path b**.
3. The direct effect of the independent variable (Talent Management) on the dependent variable (Competitive

Advantage), controlling for the mediator - Path c'.

The total effect (Path c) and the indirect effect ( $a*b$ ) were also calculated and tested for significance.

## 5. Analysis and Results

This chapter dives into the results of the statistical analyses we carried out to test our research hypotheses. We kick things off with some preliminary analyses, which cover descriptive statistics, correlations, and reliability tests. After that, we'll share the key findings from the mediation analysis that we conducted using the PROCESS macro in SPSS.

### 5.1 Preliminary Analysis

The study involved 250 senior managers and HR professionals from small and medium-sized enterprises (SMEs) in Lebanon. These companies were spread across various sectors: Technology/Outsourcing (32%), Professional Services (28%), Light Manufacturing (24%), and Agro-food (16%). On average, the firms had been operating for about 14.7 years (with a standard deviation of 8.2), and they employed around 68.5 people on average (with a standard deviation of 45.3).

To evaluate the reliability of the measurement scales, we used Cronbach's alpha. The results showed

that all scales had excellent internal consistency: Talent Management (=.92), Organizational Innovation (=.89), and Competitive Advantage (=.91). These figures are significantly higher than the commonly accepted threshold of .70, which indicates that our measures are quite reliable.

In Table 1, you'll find the descriptive statistics and Pearson correlation coefficients for the main variables in the study. The average scores reveal that respondents rated their firms' talent management practices fairly high ( $M = 3.65$ ), while the ratings for innovation ( $M = 3.48$ ) and competitive advantage ( $M = 3.55$ ) were a bit lower, yet still above the midpoint of the scale.

The correlation matrix shows that all three variables are positively and significantly linked to one another. Talent Management has a strong correlation with Competitive Advantage ( $r = .58$ ,  $p < .001$ ) and Organizational Innovation ( $r = .62$ ,  $p < .001$ ). Additionally, Organizational Innovation is significantly correlated with Competitive Advantage ( $r = .65$ ,  $p < .001$ ). These initial correlations lend early support to hypotheses H1, H2, and H3, and they meet the necessary conditions for running a mediation analysis. The strength of these correlations isn't high enough to raise any red flags about multicollinearity.

**Table 1: Descriptive Statistics and Correlation Matrix**

Variable	M	SD	1	2	3
1. Talent Management	3.65	0.88	—		
2. Organizational Innovation	3.48	0.91	.62**	—	
3. Competitive Advantage	3.55	0.85	.58**	.65**	—
<i>Note.</i> $N = 250$ . $M =$ Mean; $SD =$ Standard Deviation.					
** $p < .01$ .					
Variable	M	SD	1	2	3

## 5.2 Hypothesis Testing: Results of the Mediation Model

To explore the main idea that organizational innovation plays a role in linking talent management to competitive advantage, we utilized Hayes' (2017) PROCESS macro (Model 4). We ran the analysis using

5,000 bootstrap samples to create 95% bias-corrected confidence intervals. The findings from the OLS regression models are neatly summarized in Table 2.

**Total Effect Model:** Initially, we looked at the overall impact of Talent Management on Competitive Advantage

without including the mediator in the model (Path c). The results revealed that Talent Management is a significant positive predictor of Competitive Advantage ( $b = 0.56$ ,  $SE = 0.05$ ,  $t = 10.85$ ,  $p < .001$ ). This supports our first hypothesis, suggesting that companies with robust TM practices tend to enjoy a greater competitive edge. The model accounted for 33% of the variance in competitive advantage ( $=.33$ ).

**Mediator Model:** Next, we examined how Talent Management influences the mediator, Organizational Innovation (Path a). The results showed that Talent Management significantly boosts Organizational Innovation ( $b = 0.64$ ,  $SE = 0.05$ ,  $t = 12.31$ ,  $p < .001$ ). This backs up our second hypothesis, confirming that TM practices are closely linked to higher levels of innovation. This model explained 38% of the variance in organizational innovation ( $=.38$ ).

**Full Mediation Model:** Finally, we included both Talent Management and Organizational Innovation as predictors of Competitive Advantage. The results indicated that Organizational Innovation remains a significant positive predictor of Competitive Advantage, even when we control for Talent Management ( $b = 0.48$ ,  $SE = 0.05$ ,  $t = 9.15$ ,  $p < .001$ ). This supports our third hypothesis.

In this model, the direct effect of Talent Management on Competitive Advantage (Path c') was still statistically significant, but its coefficient dropped from 0.56 to 0.25 ( $b = 0.25$ ,  $SE = 0.06$ ,  $t = 4.12$ ,  $p < .001$ ). The fact that this direct effect remains significant after considering the mediator suggests that the mediation is partial rather than complete.

**The Indirect Effect:** When it comes to mediation, the main thing we need to look at is how significant the indirect effect ( $a*b$ ) is. Our bootstrapped analysis showed that the indirect effect of Talent Management on Competitive Advantage, via Organizational Innovation, was both significant and positive (Indirect Effect = 0.31, Boot SE = 0.04). The 95% bias-corrected confidence interval for this indirect effect ranged from [0.23, 0.39]. Since this interval doesn't include zero, we can confidently say there's a statistically significant indirect effect, which really backs up H4.

The analysis indicates that out of the total effect of 0.56, 0.31 is channeled indirectly through innovation, while the remaining 0.25 is a direct effect. This means that the ratio of the indirect effect to the total effect ( $0.31/0.56$ ) shows that about 55% of the total impact of talent management on competitive advantage is mediated by organizational innovation.

**Table 2: Results of Ordinary Least Squares (OLS) Regression for Mediation Analysis**

Variable	b	SE	t	p	
Model 1: Predicting Organizational Innovation (Mediator)					
Predictor: Talent Management (Path a)	0.64	0.05	12.31	<.001	.38
Model 2: Predicting Competitive Advantage (Dependent Variable)					
Predictor: Talent Management (Path c')	0.25	0.06	4.12	<.001	.48
Predictor: Organizational Innovation (Path b)	0.48	0.05	9.15	<.001	
Total, Direct, and Indirect Effects					
Total Effect of TM on CA (Path c)	0.56	0.05	10.85	<.001	
Direct Effect of TM on CA (Path c')	0.25	0.06	4.12	<.001	
Indirect Effect of TM on CA via Innovation					
Effect	Boot SE	LLCI	ULCI		
0.31	0.04	0.23	0.39		
<i>Note.</i> N = 250. Unstandardized regression coefficients are reported. <i>b</i> = unstandardized coefficient; <i>SE</i> = standard error. Bootstrapping results are based on 5,000 samples. LLCI = lower-level confidence interval; ULCI = upper-level confidence interval.					

## 6. Discussion of Findings

This chapter takes a closer look at the statistical results we discussed earlier, placing them within the theoretical framework and the unique context of the Lebanese business landscape. We'll dive into what each finding means, especially highlighting how crucial innovation is as a connecting factor. To wrap things up, we'll outline the theoretical insights and practical contributions that this study brings to the table.

### 6.1 Interpreting the Role of Talent Management and Innovation

The results strongly support the proposed model. H1 was confirmed ( $b = 0.56, p < .001$ ), showing a robust positive

relationship between talent management and competitive advantage, consistent with the Resource-Based View and emphasizing the strategic value of human capital even in resource-constrained environments like Lebanon (Rabbi et al., 2015). H2 was also supported ( $b = 0.64, p < 0.001$ ), indicating that talent management significantly enhances organizational innovation, reinforcing the idea that effective talent practices create conditions in which innovation can flourish (Al-Ghazali et al., 2023). Finally, H3 was confirmed ( $b = 0.48, p < .001$ ), demonstrating a positive link between innovation and competitive advantage, in line with Dynamic Capabilities theory, which highlights innovation as essential for

adaptation and performance in volatile contexts such as the Lebanese economy (Teece, 2018).

### 6.2 The Centrality of Innovation as a Mediating Mechanism

The confirmation of H4 demonstrates that organizational innovation significantly mediates the relationship between talent management (TM) and competitive advantage (CA), with the indirect effect (0.31, 95% CI [0.23, 0.39]) accounting for about 55% of the total effect. This shows that TM boosts CA primarily by enhancing innovation, turning employee potential into market success. In Lebanon, this requires both securing skilled talent and empowering them to innovate through new services, improved processes, or adaptive offerings. The partial mediation also indicates that TM has a strong direct effect on CA ( $b = 0.25$ ,  $p < .001$ ), reflecting additional value from operational efficiency, service quality, and resource management, which is especially crucial in unstable contexts where reliable performance provides a competitive edge.

### 6.3 Theoretical Implications for Strategic Management Literature

This study offers several theoretical contributions. It extends the Resource-

Based View (RBV) by showing how talented human capital is actively harnessed to create value, particularly through innovation and dynamic capabilities, linking RBV's focus on resource possession with the process-oriented approach of Dynamic Capabilities theory. It also expands empirical support for Dynamic Capabilities in extreme environments, demonstrating that sensing, seizing, and transforming through innovation are vital for survival and competitiveness in a developing economy facing systemic challenges. Finally, the study advances talent management research by identifying innovation as a mediator between talent management and performance, providing a nuanced, causally credible understanding beyond the simple "TM leads to performance" narrative (McDonnell et al., 2017).

### 6.4 Managerial Implications for Lebanese Business Leaders

The insights from this research offer clear, actionable steps for business leaders in Lebanon and other regions facing crises.

**1. Treat Talent Management as a Core Survival Strategy:** In a landscape marked by brain drain, talent management isn't just a "soft" HR issue; it's a vital part

of ensuring business continuity. Leaders need to focus on creating an environment that not only attracts but also retains top talent. This means offering competitive pay (when feasible) and also emphasizing non-monetary aspects like providing meaningful work, nurturing a supportive culture, and presenting clear paths for development.

## 2. Don't Just Hire Talent, Empower It to Innovate:

The findings indicate that the best return on investment in talent comes when it's directed towards innovation. Managers should actively seek to create opportunities for employees to share ideas, experiment with new processes, and tackle problems in creative ways. This shift requires moving away from traditional, hierarchical management styles and embracing more agile, empowering leadership.

## 3. Protect and Foster an Innovation-Enabling Culture:

In times of crisis, it's tempting to cut costs by slashing training, development, and other "non-essential" activities. However, this research shows that such cuts can be counterproductive. Investing in employee skills and cultivating a culture of psychological safety, where new ideas are welcomed,

is crucial for long-term survival and competitiveness. These aren't just expenses to trim; they're strategic investments that need to be safeguarded.

## 4. Focus on Frugal and Process Innovation:

Given the tight capital constraints in Lebanon, leaders should encourage and reward low-cost, high-impact innovations. The emphasis should be on refining operational processes, enhancing customer experiences with limited resources, and adapting business models to fit the new economic landscape. This approach taps into the natural problem-solving abilities of the Lebanese workforce without requiring hefty financial investments.

## 7. Conclusion and Recommendations

### 7.1 Synthesis of Key Findings

This study examined how talent management enhances the competitive advantage of Lebanese SMEs amid national crises, resource scarcity, and brain drain. The findings confirm that both talent management and organizational innovation significantly strengthen competitive advantage. Importantly, innovation was identified as a key mediator, accounting for roughly 55% of the effect of talent management on performance,

highlighting its role in converting skilled human capital into market success. Talent management also directly supports operational stability and efficiency, providing additional competitive benefits. Overall, the research concludes that Lebanese firms must not only attract and retain talent but also create environments that enable employees to innovate and adapt effectively.

### 7.2 Recommendations for Policy and Practice

Based on these insights, here are some recommendations for business leaders and policymakers in Lebanon.

**For Business Leaders:** Align talent management with innovation goals and cultivate a resilient, adaptable culture that encourages experimentation and learning from failure.

**For Policymakers:** Address brain drain by creating opportunities for talent and support SMEs' human capital and innovation through training, funding, and regulatory improvements (UNCTAD, 2018; Ministry of Economy and Trade, 2015; EBRD, 2023).

### 7.3 Limitations and Directions for Future Research

The study is limited by its cross-sectional design, non-random sample, and single-respondent perceptual data, which restrict causality and generalizability. Future research could use longitudinal designs, larger or random samples, multiple data sources, qualitative case studies, and cross-country comparisons to deepen understanding of talent, innovation, and competitive advantage in crisis contexts.

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## Appendix A: Survey Questionnaire

Instructions: Please indicate your level of agreement with the following statements regarding the practices and performance of your organization. Use the following 5-point scale:

- 1 = Strongly Disagree
- 2 = Disagree
- 3 = Neutral
- 4 = Agree
- 5 = Strongly Agree

### Part 1: Talent Management

#### Talent Attraction

1. My organization has a clear strategy for attracting top talent.
2. We have a strong employer brand that is attractive to potential employees.
3. Our recruitment processes are effective in identifying and hiring high-potential individuals.
4. We successfully compete with other firms in our industry to hire the best available talent.
5. Our selection criteria are closely aligned with the strategic needs of the organization.

#### Talent Development

6. We provide our talented employees with clear and promising career development paths.
7. Our organization invests significantly in training and development programs for key employees.
8. We have effective mentoring and coaching programs for our high-potential staff.
9. Employees are regularly given challenging assignments that help them grow their skills.
10. There is a strong culture of continuous learning and professional development in our organization.

#### Talent Retention

11. Our compensation and rewards system is competitive and effective in retaining our best employees.

12. We have created a positive and engaging work environment that encourages employees to stay.
13. Senior leadership is actively involved in efforts to retain top talent.
14. We regularly assess and address the reasons for employee turnover.
15. Our organization makes a significant effort to recognize and reward the contributions of its top performers.

### **Part 2: Organizational Innovation**

1. In our organization, we actively seek out new and innovative ways to improve our work processes.
2. We frequently introduce new products or services to the market.
3. Our organization is quick to adopt new technologies to improve efficiency and effectiveness.
4. Employees are encouraged to experiment with new ideas and approaches.
5. We have a culture that tolerates failure as a part of the innovation process.
6. Our organization often pioneers new ways of marketing our products or services.
7. We actively encourage and reward creative ideas from all levels of the organization.
8. Our management style is flexible and empowers employees to take initiative.
9. We often collaborate with external partners (e.g., universities, consultants) to drive innovation.
10. Compared to our competitors, our organization is considered a leader in innovation.

### **Part 3: Competitive Advantage**

*Please rate your firm's performance relative to your main competitors over the past three years.*

1. Compared to our main competitors, my organization has a stronger market position.
2. Our products or services are of a significantly higher quality than our competitors'.
3. Our firm is more effective at differentiating its offerings in the market.
4. Our brand and reputation are stronger than our competitors'.
5. We are more profitable than our main competitors.

6. Our customer satisfaction and loyalty are higher than our competitors'.
7. We are quicker to respond to market opportunities than our competitors.
8. Overall, our firm's performance is superior to that of our main competitors.

#### **Part 4: Demographic Information**

##### **1.What is your current position in the organization?**

- o Top Manager (e.g., CEO, GM, Director)
- o Middle Manager (e.g., Department Head)
- o Line Manager (e.g., Supervisor)
- o HR Professional

##### **2.In which industry does your company primarily operate?**

- o Banking / Finance
- o Technology / IT
- o Manufacturing
- o Services (e.g., hospitality, consulting)
- o Other (please specify):

##### **3.How many full-time employees does your company have?**

- o Fewer than 50
- o 50 - 250
- o More than 250

##### **4.How many years has your company been in operation?**