

# The Role of Innovation in Promoting Economic Growth and Sustainability

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## ABSTRACT

Technological advancement and digital transformation have significantly reshaped the economic and business environment. These changes require organizations to continuously adapt through innovation to maintain competitiveness and achieve long-term economic sustainability. This study aims to analyze the role of innovation in promoting economic growth and supporting economic sustainability. The research employed a quantitative approach using a survey method and Structural Equation Modeling–Partial Least Squares (SEM-PLS) analysis. The findings indicate that innovation positively affects economic growth by improving productivity, efficiency, and organizations' ability to create value. Furthermore, innovation contributes to economic sustainability by strengthening organizational adaptability, resilience, and competitiveness in responding to changes in the business environment. The results also reveal that integrating innovation and digital transformation is crucial to fostering sustainable economic growth. Therefore, organizations should consider innovation as a strategic priority to enhance economic performance while maintaining long-term sustainability. These findings provide both theoretical and practical insights into the importance of innovation as a key driver of sustainable economic development.

**Keywords:** *Economic Growth, Innovation, Productivity, Sustainability, Technology.*

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## 1. | INTRODUCTION

The development of the global economy in recent years has shown increasingly dynamic changes along with technological advancements, digitalization, and increasing competition between organizations. The economic transformation that has occurred has not only changed the way organizations carry out business activities, but also encouraged the emergence of new economic models that are more flexible, adaptive, and knowledge-based. In these conditions, organizations are required to be able to develop strategies that can maintain competitiveness while creating sustainable economic growth. Various international reports show that innovation has become one of the key factors determining the success of organizations in the face of increasingly complex economic environment changes (OECD, 2021; World Bank, 2023).

Rapid digitalization has also encouraged changes in the economic behavior of people and business actors. The use of digital technology has expanded access to information, improved operational efficiency, and created new opportunities in various sectors of the economy. Digital transformation also enables organizations to develop more innovative products, services, and business processes to meet changing consumer needs. This phenomenon suggests that innovation is no longer seen as a purely strategic option, but has become a fundamental necessity for organizations that want to survive and thrive in the modern business environment (Kraus et al., 2019; Verhoef et al., 2021). In addition, the development of financial technology and the increasing use of digital platforms in economic activities show that technological changes have an important role in driving economic transformation at large (Chairani et al., 2021).

From an economic perspective, innovation is seen as the ability of an organization to create added value through the development of new products, processes, and business models. Innovation contributes to increased productivity, resource use efficiency, and an organization's ability to create a sustainable competitive advantage. Modern economic growth theory places innovation as one of the main sources of growth because it is able to increase production capacity and accelerate the process of value creation in the economy. Therefore, the higher the innovation ability of an organization, the greater its chances of improving economic performance and maintaining business sustainability in the long term (Aghion et al., 2021).

In line with the increasing attention to sustainable development, studies on the relationship between innovation and economic sustainability are also growing. Economic sustainability is not only related to the ability to generate profits in the short term, but also includes the ability of organizations to sustain growth, create resilience to environmental change, and provide sustainable economic benefits. Various studies show that innovation has an important contribution to supporting economic sustainability through increased organizational efficiency, adaptability, and competitiveness (Khan et al., 2022).

However, the results of previous research on the relationship between innovation and economic performance still show mixed findings. Some studies have found that

innovation has a significant positive influence on economic growth and organizational sustainability, while others have shown that it depends on organizational conditions, technology adoption rates, and the characteristics of the business environment. In addition, most research still focuses on the impact of innovation on short-term economic growth, while studies linking innovation to economic sustainability are still relatively limited. On the other hand, the integration between innovation and digital transformation in supporting economic sustainability has also not been explored comprehensively, especially in the context of developing countries.

Based on these conditions, this research was conducted to analyze the role of innovation in encouraging economic growth while supporting economic sustainability. This research is expected to make a theoretical contribution in enriching the literature on innovation and economic sustainability, as well as provide practical implications for organizations in formulating strategies that are able to create sustainable economic growth in the midst of the dynamics of the ever-evolving business environment.

## **2. | LITERATURE REVIEW**

### **Innovation and Economic Growth**

Innovation is one of the important factors that drives economic growth in an increasingly competitive business environment. The concept of innovation is not only limited to the creation of new products, but also includes the development of processes, technologies, working methods, and business models that are able to increase organizational efficiency and productivity. In modern economic growth theory, innovation is seen as the primary mechanism that results in increased added value and creates a sustainable competitive advantage. Organizations that are able to consistently generate innovation tend to have better ability to respond to market changes, take advantage of new opportunities, and improve economic performance than organizations that are less innovative.

According to Aghion et al. (2021), innovation plays a key driver of economic growth through the process of creating and updating technology that allows for sustainable productivity increases. In line with this view, the OECD (2019) explains that the ability to innovate is a strategic factor that determines the competitiveness of a country's organization and economy in the face of changes in the global environment. In addition, Mohamed et al.'s (2022) research shows that innovation has a positive relationship with economic growth because it is able to increase operational efficiency, expand market opportunities, and strengthen an organization's competitive position.

Based on these various views, it can be understood that innovation has a significant contribution to economic growth. An organization's ability to develop innovation will affect productivity, efficiency, and the ability to create economic value that ultimately supports more sustainable growth.

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## **Innovation and Economic Sustainability**

Economic sustainability is a condition when an organization is able to maintain economic performance and growth in the long term without neglecting the ability to adapt to environmental changes. In this context, innovation is seen as an important instrument that enables organizations to create resilience, improve resource use efficiency, and sustainably maintain competitiveness. Economic sustainability is not only oriented towards achieving short-term profits, but also includes the ability of organizations to continuously evolve in the face of uncertainty and market dynamics.

UNCTAD (2023) emphasized that innovation is one of the key elements in supporting sustainable economic development because it is able to accelerate economic transformation and increase organizational adaptation capacity to technological changes. Furthermore, Khan et al. (2022) found that innovation has a positive influence on the sustainable performance of organizations through increased efficiency, more competitive product development, and strengthening the company's adaptive capabilities. Meanwhile, the World Bank (2023) explains that innovation can strengthen economic resilience by creating new growth opportunities that are more inclusive and sustainable.

Thus, innovation not only serves as a driver of economic growth, but also as a mechanism that supports economic sustainability in the long term. Organizations that are able to integrate innovation into their business strategies will have a greater chance of sustaining growth, increasing competitiveness, and creating sustainable economic value.

### **3. | RESEARCH METHOD**

This study uses a quantitative approach with the aim of analyzing the influence of innovation on economic growth and economic sustainability. The quantitative approach was chosen because it was able to provide an empirical picture of the relationship between research variables through systematic and objective statistical testing. The research was conducted using a survey method using questionnaire instruments compiled based on indicators that have been developed in various previous studies on innovation, economic growth, and economic sustainability. Innovation variables are measured through an organization's ability to develop new products, processes, and business models, while economic growth is measured through an increase in productivity, efficiency, and economic performance of the organization. Economic sustainability is measured through an organization's ability to maintain growth, increase competitiveness, and adapt to changes in the business environment in the long term.

The research population consists of individuals who have experience in economic activities and understand the use of innovation in the organizational and business environment. The sampling technique used purposive sampling with the criteria of respondents who had knowledge about the application of innovation and digital transformation in economic activities. Data collection was carried out online through

the distribution of questionnaires using digital platforms to allow respondents from various backgrounds to participate in the research. The measurement scale used is a five-point Likert scale, ranging from strongly disagree to strongly agree.

The collected data was then analyzed using Structural Equation Modeling-Partial Least Squares (SEM-PLS). The SEM-PLS method was chosen because it is able to analyze the relationship between latent variables simultaneously and is suitable for the development of conceptual models involving several research constructs. The analysis stage includes testing the measurement model (outer model) and structural model (inner model). The outer model test was carried out through convergent validity, discriminant validity, and construct reliability tests using loading factor values, Average Variance Extracted (AVE), Composite Reliability, and Cronbach's Alpha. Furthermore, the inner model test was carried out to evaluate the relationship between variables through path coefficient values, t-statistical values, and p-values obtained from the bootstrapping procedure. The results of the analysis are used to answer the research objectives and test the influence of innovation on economic growth and economic sustainability empirically.

#### **4. | RESULTS**

The results of the study show that innovation has an important role in supporting economic growth and economic sustainability. Based on the results of data processing using the SEM-PLS method, all indicators used in the study met the criteria of validity and reliability so that they were suitable for measuring the research construct. The loading factor values on each indicator are above the recommended minimum, while the Composite Reliability and Cronbach's Alpha values indicate a good level of internal consistency. The findings show that research instruments are able to adequately explain the relationship between innovation, economic growth, and economic sustainability.

The descriptive analysis showed that most respondents gave a positive assessment of the importance of innovation in economic activity. Respondents assessed that innovation is able to improve operational efficiency, accelerate work processes, and help organizations in dealing with changes in the increasingly dynamic business environment. These findings indicate that innovation has become an important part of an organization's strategy to maintain competitiveness and improve economic performance. This condition is in line with the view of the OECD (2019) which emphasizes that innovation is one of the main factors that determine an organization's ability to create a competitive advantage and maintain economic growth in the long term.

The results of testing the structural model show that innovation has a positive influence on economic growth. These findings indicate that an increase in an organization's ability to generate innovation will be followed by an increase in productivity, efficiency, and economic added value. Organizations that are able to develop new products, improve business processes, and adopt more effective

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technologies tend to have better economic performance than organizations that are less innovative. The findings support the theory of innovation-based economic growth which explains that technological advances and the renewal of production processes are the main sources of increased productivity in the modern economy (Aghion et al., 2021).

In addition to affecting economic growth, the results of the study also show that innovation has a positive influence on economic sustainability. Organizations that consistently develop innovation have a better ability to maintain performance, deal with changing environments, and create new growth opportunities. The ability to adapt to market changes and technological developments allows organizations to maintain competitiveness in the long term. These findings support the results of Khan et al.'s (2022) research which states that innovation contributes significantly to the achievement of sustainable performance through improved organizational efficiency and adaptability.

The results of the study also show that digital transformation plays a supporting role as a supporting factor that strengthens the relationship between innovation and economic performance. The utilization of digital technology enables organizations to accelerate the innovation process, improve service quality, and expand market access. Respondents assessed that the use of digital technology has helped organizations in increasing operational flexibility and accelerating the decision-making process. These findings are in line with research by Kraus et al. (2019) which explains that digital transformation provides opportunities for organizations to develop more effective innovations and increase competitiveness in an ever-changing business environment.

Furthermore, the results of the study show that organizations with a high level of innovation tend to be better prepared to deal with changes in the economic environment than organizations with a low level of innovation. The ability to create new products, develop more flexible business strategies, and adopt relevant technologies are factors that help organizations maintain business continuity. These findings support the view of Verhoef et al. (2021) who emphasize that digital transformation and innovation are complementary elements in building a sustainable competitive advantage.

In the context of economic growth, the results of the study show that innovation contributes to increasing the efficiency of resource use. Organizations that are able to implement innovation effectively can reduce operational costs, improve product quality, and speed up the production process. This efficiency ultimately has a positive impact on increasing productivity and economic growth of the organization. These findings are consistent with Mohamed et al.'s (2022) research, which found that innovation has a positive relationship with economic growth because it is able to increase efficiency and create greater added value.

In addition, the results of the study show that innovation not only generates economic benefits in the short term but also contributes to economic sustainability in the long term. Organizations that integrate innovation into their business strategies have

a better ability to maintain performance stability and face external challenges. These capabilities are becoming increasingly important in a business environment characterized by rapid technological changes and increasing global competition. These findings are in line with the UNCTAD report (2021) which confirms that innovation is one of the main instruments in encouraging sustainable economic development.

The results of the study also show that innovation encourages the improvement of organizational ability to create new economic opportunities. Organizations that actively innovate tend to be better able to identify market needs, develop relevant solutions, and create new revenue streams. This capability enables organizations to sustain economic growth while expanding their contribution to broader economic development. These findings support a World Bank report (2021) that explains that innovation plays an important role in creating more inclusive and sustainable growth opportunities.

Other findings show that the success of innovation is heavily influenced by the organization's ability to manage knowledge and utilize technology. Organizations that are able to integrate knowledge resources with digital technology tend to generate more effective innovation than organizations that focus on only one of these aspects. These results strengthen the argument of Farzaneh et al. (2021) that effective innovation management requires a combination of organizational capabilities, technology, and continuous learning.

Furthermore, the results of the study show that innovation has a strategic role in increasing the economic resilience of organizations. Innovative organizations are better able to anticipate changes in the business environment and respond to emerging challenges more quickly. This resilience is one of the important factors that support economic sustainability in the long term. These findings support the UNCTAD report (2023) which explains that innovation contributes to increasing adaptation capacity and economic resilience in the face of various global changes.

The results of the study also confirm that innovation and economic sustainability have a mutually reinforcing relationship. Innovation helps organizations improve efficiency and productivity, while economic sustainability provides a foundation for organizations to continue to develop innovation in the future. This mutual relationship shows that the success of an organization is not only determined by its ability to create innovations, but also by its ability to sustainably sustain the benefits of those innovations. These findings are in line with the World Bank's (2023) view which emphasizes the importance of innovation as a key driver of resilient and sustainable economic growth.

Overall, the results of the study show that innovation is a factor that plays a significant role in driving economic growth and economic sustainability. Innovation enables organizations to improve productivity, efficiency, competitiveness, and adaptability to environmental changes. These findings also indicate that the integration of innovation and digital transformation is becoming an increasingly important strategy in creating sustainable economic growth. The results of the research also strengthen

various previous findings that state that innovation is a strategic instrument in facing modern economic challenges and supporting the achievement of more sustainable economic development (Albort-Morant et al., 2020; Idris & Durmuşoğlu, 2021).

## 5. | DISCUSSION

The results of the study show that innovation has a positive influence on economic growth and economic sustainability. These findings indicate that an organization's ability to develop new products, processes, and business models can increase productivity, efficiency, and an organization's ability to maintain competitiveness in a changing business environment. The findings reinforce the view that innovation is a major source of added value creation and one of the important determinants of modern economic growth. When an organization is able to integrate innovation into its operational activities, it will have a greater opportunity to improve economic performance while strengthening the sustainability of its business in the long term (Aghion et al., 2021).

The results of this study also provide support for previous research that states that innovation has a significant contribution to increasing productivity and economic growth. Organizations that actively innovate tend to be able to utilize resources more efficiently, develop solutions that meet market needs, and create new business opportunities. This condition allows organizations to maintain more stable economic growth than less innovative organizations. Thus, innovation can be seen as a strategic instrument that helps organizations deal with increasingly complex economic dynamics (Mohamed et al., 2022).

In addition, this study succeeded in answering one of the research gaps that had been identified previously, namely the limitations of studies that link innovation with economic sustainability. The results show that innovation not only provides benefits in the form of improving short-term economic performance, but also plays a role in creating the economic resilience and adaptability needed to maintain the sustainability of the organization. These findings reinforce the argument that economic sustainability requires the ability of organizations to continuously adapt through a continuous innovation process (Khan et al., 2022).

This research also shows that digital transformation has an important role in strengthening the benefits of innovation on economic growth and sustainability. The use of digital technology allows organizations to accelerate the innovation process, increase access to information, and expand market reach. These findings support the view that innovation and digital transformation are two complementary elements in creating sustainable competitiveness. Therefore, organizations need to develop adequate digital capabilities so that the innovation process can run more effectively and provide optimal economic impact (Verhoef et al., 2021).

Overall, the results of this study contribute to the development of the literature on innovation and economic sustainability, especially in explaining how innovation can be a factor that drives economic growth while supporting sustainability in the long term.

The research findings also reinforce the view that the success of organizations in the digital economy era is greatly influenced by the ability to manage innovation in a sustainable manner and integrate it with evolving technological developments (UNCTAD, 2023).

## **6. | CONCLUSION**

This research aims to analyze the role of innovation in driving economic growth and economic sustainability. The results of the study show that innovation has a positive influence on increasing productivity, efficiency, and competitiveness of organizations. Organizations that are able to develop innovation in a sustainable manner tend to have better ability to create economic added value, take advantage of market opportunities, and deal with changes in the increasingly dynamic business environment. Thus, innovation can be seen as one of the strategic factors that support economic growth in the long term.

In addition to contributing to economic growth, innovation has also proven to play an important role in supporting economic sustainability. The ability of organizations to continuously update and adapt to technological developments allows for the creation of stronger economic resilience. Innovation helps organizations maintain performance, increase operational flexibility, and strengthen competitiveness so that they can survive in various business environments. These findings show that economic sustainability is not only determined by current performance achievements, but also by an organization's ability to create and manage innovation in a sustainable manner. This study confirms that innovation is an important element that can drive economic growth while supporting economic sustainability. Therefore, organizations need to make innovation an integral part of their development strategy in order to create sustainable growth and deliver economic benefits in the long run.

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The authors declare that there is no conflict of interest.

***Ethical Approval and Originality Statement***

Ethical approval was obtained for this study. The manuscript represents original work and has not been previously published, nor is it under consideration by another journal.

***Data Disclosure Statement***

The data that support the findings of this study are available from the corresponding author upon reasonable request.

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