

Innovation, Competitive Advantage, and Business Sustainability in Enhancing Organizational Performance

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ABSTRACT

This study aims to analyze the role of innovation in improving organizational performance through competitive advantage and business sustainability within the context of the modern economy. The rapid growth of digital transformation, increasing business competition, and changing market demands encourage organizations to develop adaptive strategies oriented toward sustainable value creation. This research employs a descriptive qualitative approach using a literature study method based on scientific articles, national and international journals, and relevant publications issued over the last five years. Data analysis was conducted through data reduction, data presentation, and conclusion drawing to obtain a comprehensive understanding of the relationships among innovation, competitive advantage, business sustainability, and organizational performance. The findings indicate that innovation is a strategic factor that enhances organizational capability in creating added value, strengthening competitive positioning, and supporting long-term business sustainability. Competitive advantage serves as a mechanism linking innovation to organizational performance, while business sustainability reinforces the organization's ability to maintain growth and competitiveness over time. The study concludes that the integration of innovation, competitive advantage, and business sustainability constitutes an essential foundation for achieving superior and sustainable organizational performance in a dynamic economic environment.

Keywords: *Business Sustainability, Competitive Advantage, Innovation, Organizational Performance, Strategic Management.*

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1. | INTRODUCTION

The development of the global economy in recent years shows that the ability of organizations to adapt to changes in the business environment is a factor that increasingly determines business sustainability. Digital transformation, changing consumer behavior, increasing market competition, and demands for sustainable business practices have encouraged organizations to continuously increase their innovation capacity. In this context, innovation is no longer seen as a mere strategic choice, but rather as a fundamental need that allows organizations to maintain competitiveness and create added value in a sustainable manner. Organizations that are able to develop innovation consistently tend to have better ability to respond to changes in the external environment and take advantage of economic opportunities that arise due to technological developments and market dynamics (Khosravi et al., 2019; Verhoef et al., 2021).

Innovation has an important role in increasing organizational effectiveness because it allows the creation of products, services, processes, and business models that are more efficient and relevant to market needs. Through innovation, organizations can generate advantages that are difficult for competitors to replicate so that they are able to maintain a competitive position in the long term. In addition, innovation also contributes to increased productivity, operational efficiency, and sustainable economic value creation. Various studies show that organizations with high innovation capabilities tend to show better performance than organizations that are less innovative (AlTaweel & Al-Hawary, 2021; Migdadi, 2022).

Nonetheless, the relationship between innovation and organizational performance is still a matter of debate in the academic literature. A number of studies have found that innovation has a positive and significant impact on improving organizational performance, both from financial and non-financial aspects (Khosravi et al., 2019; Migdadi, 2022). However, other research shows that the influence of innovation does not always occur directly because it is influenced by various internal factors of the organization, including the ability to manage resources and create a competitive advantage (Bazrkar et al., 2022). The difference in the results of the study shows that there are still empirical inconsistencies that require further study to understand the mechanisms that link innovation with the achievement of organizational performance.

In addition, most previous research has placed organizational performance as the ultimate goal of innovation, while the sustainability aspect of business has received relatively little attention. In fact, in the modern economic environment, the success of an organization is not only measured by short-term performance achievements, but also the ability to maintain its existence and competitiveness in the long term (Sołoduch-Pelc & Sulich, 2020). The concept of business sustainability is becoming increasingly relevant because organizations are required to be able to create a balance between economic growth, operational efficiency, and the sustainability of business strategies. Previous research has shown that innovation has the potential to be an important factor

in supporting organizational sustainability through sustainable value creation and increased adaptability to changing business environments (Cillo et al., 2019; Yusliza et al., 2020).

On the other hand, the development of the digital economy has also significantly changed the characteristics of business competition. Organizations are not only required to innovate, but also able to turn those innovations into sustainable competitive advantages. Competitive advantage is an important element that bridges the relationship between innovation and organizational performance achievement. Organizations that successfully utilize innovation to create differentiation, efficiency, and unique added value will have a greater chance of achieving business success and maintaining the sustainability of their business (Anwar, 2018; Farida & Setiawan, 2022).

Based on this description, there are still research gaps related to the relationship between innovation, competitive advantage, business sustainability, and organizational performance in one integrated conceptual framework. Most previous studies have examined these variables separately so they have not provided a comprehensive picture of organizational value creation mechanisms. Therefore, this study aims to analyze the role of innovation in improving organizational performance through competitive advantage and business sustainability. This study is expected to make a theoretical contribution to the development of economic and management literature and become the basis for organizations in formulating strategies that are able to improve business competitiveness and sustainability in the midst of modern economic dynamics.

2. | LITERATURE REVIEW

Innovation and Organizational Performance

Innovation is an organization's ability to create or develop new ideas, products, services, processes, and business models that are able to provide added value to organizations and stakeholders (Madsen, 2020). From a modern economic perspective, innovation is seen as the main source of organizational growth and sustainability because it can increase efficiency, productivity, and adaptability to changes in the business environment. Organizations that have an innovative culture tend to be more responsive to changing market needs so that they are able to maintain competitiveness in the long term. In addition, innovation also plays a role in creating differentiation of products and services that can improve the competitive position of organizations in the midst of increasingly complex competition.

The relationship between innovation and organizational performance has been the focus of various studies in recent years. Organizational performance is not only measured from financial aspects such as profitability and revenue growth, but also includes operational effectiveness, productivity, and the achievement of organizational strategic goals. Innovation allows organizations to develop more efficient ways of working and produce products that are more in line with market needs, thus contributing to improved overall performance. Research by Khosravi et al. (2019) shows that

innovation has a positive contribution to improving organizational performance through the creation of new value that supports business success. Similar findings were also put forward by AlTaweel and Al-Hawary (2021) and Migdadi (2022) who emphasized that innovation capabilities are a strategic factor in increasing organizational effectiveness and strengthening competitiveness in the digital economy era.

Competitive Advantage as a Consequence of Innovation

Competitive advantage is a condition when an organization has a better ability than competitors to create value for customers and other stakeholders. These advantages can come from cost efficiency, product quality, service differentiation, technological capabilities, and resources that are difficult for competitors to replicate. In the Resource-Based View (RBV) theory, competitive advantage is considered as the result of the use of unique organizational resources and capabilities so that it is able to produce superior performance compared to competitors (Assensoh-Kodua, 2019).

Innovation is one of the main factors that contribute to the formation of competitive advantage. Organizations that are able to generate innovation in a sustainable manner have a greater chance of creating products and services that are different from competitors. Innovation also allows organizations to improve the efficiency of business processes so that they are able to provide higher value to customers. In the context of the digital economy, the ability to manage innovation is increasingly important because technological changes are happening very quickly and creating increasingly complex competition dynamics.

Anwar's research (2018) shows that business model innovation has a significant influence on increasing organizational competitiveness, especially in the face of changes in the dynamic business environment. Furthermore, Farida and Setiawan (2022) found that competitive advantage plays a role as an important factor that bridges the relationship between organizational strategy and performance achievement. Meanwhile, Khan et al. (2019) explain that investment in intangible resources, including knowledge and innovation, is able to generate a sustainable competitive advantage so as to support the success of the organization in the long term.

Business Sustainability and Organizational Performance

Business sustainability is an organization's ability to maintain operational continuity and long-term growth through effective resource management, adaptation to changing environments, and sustainable value creation (Wolniak et al., 2023). This concept is increasingly important in the modern economy because organizations are not only required to achieve economic profits, but also maintain the competitiveness and resilience of the organization in the midst of the uncertainty of the business environment. Business sustainability reflects an organization's ability to integrate economic, social, and operational strategies to achieve sustainable growth.

The relationship between business sustainability and organizational performance shows that organizations that have a good sustainability strategy tend to have a higher

ability to maintain positive performance in the long term. Sustainability allows organizations to manage risk more effectively, improve resource efficiency, and build stronger relationships with various stakeholders. Therefore, business sustainability is not only a strategic goal, but also a factor that supports the achievement of organizational performance in a sustainable manner.

Research by Cillo et al. (2019) shows that sustainable innovation plays an important role in supporting economic value creation while increasing organizational resilience to environmental change. These findings are reinforced by Yusliza et al. (2020) who stated that sustainability practices contribute to increasing organizational effectiveness and achieving strategic goals. In addition, Weber (2023) emphasized that organizations that are able to integrate sustainability principles in their business strategies tend to have a better level of resilience and performance than organizations that are only oriented towards achieving short-term profits.

3. | RESEARCH METHOD

This study uses a descriptive qualitative approach to deeply understand the relationship between innovation, competitive advantage, business sustainability, and organizational performance in the context of the modern economy. The qualitative approach was chosen because this study aims to explore the concepts, meanings, and relationships between variables based on various empirical findings and theoretical studies that have been published previously. Through this approach, the research does not focus on statistical hypothesis testing, but on efforts to describe, analyze, and interpret the evolving phenomenon related to the role of innovation as a strategic factor in improving organizational competitiveness and sustainability. The descriptive method is used to provide a systematic overview of research developments in the field of innovation and organizational performance and identify patterns of relationships found in various scientific literature.

The data sources used in this study are secondary data derived from various scientific articles, national and international journals, proceedings, research reports, and academic documents relevant to the research topic. References used are limited to publications for the last five-year period to ensure that the information obtained reflects the latest developments in economic studies, management, innovation, and business sustainability. The data collection process is carried out through literature studies by browsing various articles indexed by Google Scholar using keywords such as innovation, competitive advantage, business sustainability, organizational performance, and digital transformation. In addition, this research also utilizes articles on electronic service quality, customer satisfaction, and customer loyalty as supporting references in explaining the importance of innovation and digital transformation in creating organizational value.

Data analysis is carried out through several stages, namely data reduction, data presentation, and conclusion drawn. At the data reduction stage, the various literature that had been collected was selected based on relevance to the research objectives.

Furthermore, the selected data is categorized into key themes related to innovation, competitive advantage, business sustainability, and organizational performance. The data presentation stage is carried out by systematically compiling the results of the study so as to facilitate the process of interpretation and identification of relationships between concepts. The last stage is the drawing of conclusions through a critical analysis process of various previous research findings to gain a comprehensive understanding of the role of innovation in increasing competitive advantage, supporting business sustainability, and encouraging improvement in organizational performance. With this approach, this research is expected to be able to produce a conceptual synthesis that can enrich the development of economic and management literature as well as become a reference for organizations in formulating adaptive and sustainable business strategies.

4. | RESULTS

The results of the literature review show that innovation is a strategic factor that has an important role in improving the organization's ability to survive and develop in the midst of increasingly dynamic economic environment changes. Various studies published in the 2019–2023 period show that organizations that consistently develop innovation have a higher tendency to achieve competitive advantage, maintain business sustainability, and improve overall organizational performance. The findings show that innovation serves not only as a means of developing new products or services but also as an adaptation mechanism that allows organizations to face technological changes, market needs, and increasingly complex competition intensity (Khosravi et al., 2019).

Various previous studies show that innovation is closely related to an organization's ability to create added value. Innovation enables organizations to develop new approaches to production, distribution, marketing, and resource management to increase operational efficiency and effectiveness. In an increasingly competitive business environment, organizations that do not innovate tend to have difficulty maintaining their competitiveness. In contrast, organizations that are able to generate innovation sustainably have a greater chance of creating valuable differentiation for customers and other stakeholders. This condition reinforces the view that innovation is the main source of excellence in a knowledge-based economy (AlTaweel & Al-Hawary, 2021).

Other findings suggest that innovation contributes to improving organizational performance through various strategic pathways. Innovation can increase productivity, speed up decision-making processes, optimize resource utilization, and produce more effective solutions to various business challenges. In addition, innovative organizations tend to be more adaptable to changes in the external environment than organizations that rely on conventional methods. Thus, innovation serves as a dynamic capability that allows organizations to maintain their relevance and effectiveness in the long term (Migdadi, 2022).

However, the results of the study also found that the relationship between innovation and organizational performance does not always take place directly. Some studies show that the influence of innovation on performance is often influenced by other factors that serve as a connecting mechanism. One of the most commonly found factors is competitive advantage. Organizations that successfully turn innovation into a source of differentiation, efficiency, and unique value for customers tend to benefit more than organizations that only produce innovations without being able to commercialize them effectively. These findings suggest that competitive advantage plays an important role in explaining how innovation can lead to improved organizational performance (Bazrkar et al., 2022).

Competitive advantage arises when an organization has characteristics, resources, or capabilities that are difficult for competitors to replicate. In various studies analyzed, innovation has proven to be one of the main factors that support the formation of competitive advantage. Organizations that can develop product, service, and business model innovations have a greater chance of offering different value than competitors. These values can be in the form of better quality, higher cost efficiency, superior customer experience, or the ability to respond to market needs faster. Therefore, innovation and competitive advantage are two concepts that are interrelated and mutually reinforcing in the process of creating organizational value (Anwar, 2018).

Furthermore, the results of the study show that competitive advantage contributes to improving organizational performance through the creation of a stronger market position. Organizations that have a competitive advantage tend to be better able to attract customers, maintain market share, and face competitive pressures. These advantages also allow organizations to gain higher efficiency and improve the quality of relationships with customers and business partners. Thus, competitive advantage is not only the result of innovation, but also a determining factor in the success of an organization in utilizing innovation to achieve its strategic goals (Farida & Setiawan, 2022).

In addition to innovation and competitive advantage, the results of the study also show the importance of business sustainability as an increasingly relevant dimension in modern economics and management studies. Business sustainability is no longer understood simply as an organization's ability to survive, but also includes the ability to create value sustainably through effective and adaptive resource management. Organizations that are able to integrate sustainability principles into their business strategies tend to have a higher level of resilience to various changes in the economic and technological environment. Therefore, business sustainability is one of the important indicators in assessing organizational success in the digital economy era (Cillo et al., 2019).

Literature findings show that innovation has a significant contribution to business sustainability. Innovation allows organizations to develop more efficient processes, make optimal use of technology, and create business models that are able to adapt to

changing market needs. In the long run, these innovative capabilities contribute to increasing the resilience of the organization and supporting operational sustainability. In other words, organizations that continue to innovate have a greater chance of maintaining their existence than organizations that do not update continuously (Yusliza et al., 2020).

In addition, the results of the study also show that business sustainability has a positive relationship with organizational performance. Organizations that implement sustainability strategies tend to be better able to manage risk, improve operational efficiency, and build stronger relationships with various stakeholders. This condition contributes to increasing organizational stability in the face of the uncertainty of the business environment. Thus, business sustainability not only serves as a long-term goal, but also becomes a factor that supports the achievement of better organizational performance (Weber, 2023).

The development of the digital economy also provides a new dimension in the relationship between innovation, competitive advantage, business sustainability, and organizational performance. Digital transformation has changed the way organizations operate, interact with customers, and create economic value. Organizations that are able to utilize digital technology effectively tend to have a higher ability to generate innovation and maintain its competitiveness. In contrast, organizations that are slow to adapt to digital transformation run the risk of losing relevance in an increasingly competitive market (Verhoef et al., 2021).

In this context, the ability to manage intangible resources such as knowledge, information, and innovation capabilities is becoming increasingly important. The results of the study show that these resources have a significant contribution to the formation of a sustainable competitive advantage. Organizations that are able to effectively manage knowledge and innovation tend to have a higher ability to create value and maintain their position in the market. These findings reinforce the view that competitive advantage in the digital economy era is not only determined by physical assets, but also by an organization's ability to manage intellectual assets and innovative capabilities (Khan et al., 2019).

The results of the analysis also show that various studies conducted in the 2019–2023 period generally support the positive relationship between innovation, competitive advantage, business sustainability, and organizational performance. However, there are still differences in the results of the study related to the strength of influence between these variables. Some studies have found that innovation has a direct impact on organizational performance, while others have shown that it is more effective when mediated by competitive advantage and business sustainability. The difference in findings shows that the relationship between variables is complex and is influenced by organizational characteristics, business environment, and the level of innovation maturity possessed.

In addition, the development of digital technology also encourages the emergence of new forms of innovation that are oriented towards improving the quality of service and customer experience. Research on the quality of electronic services shows that the use of digital technology can increase customer satisfaction and loyalty if followed by adequate service quality. These findings indicate that digital innovation not only impacts organizational efficiency, but also on the ability to create stronger relationships with customers as a source of long-term competitive advantage (Lestari et al., 2023). Overall, the results show that innovation is the key foundation that enables organizations to create competitive advantages, strengthen business sustainability, and improve organizational performance in the face of modern economic challenges.

5. | DISCUSSION

The results of the study show that innovation has a central position in supporting the improvement of organizational performance through the formation of competitive advantages and strengthening business sustainability. These findings indicate that organizations that are able to develop innovation in a sustainable manner will have a greater chance of adapting to changing business environments while maintaining their competitiveness in the long term. In the context of the modern economy characterized by technological developments and rapid market dynamics, innovation is no longer seen as an additional activity, but rather as a strategic need that determines the success of an organization. These findings are in line with the research of Khosravi et al. (2019) which affirms that innovation contributes to value creation and improvement of organizational performance through the development of adaptive capabilities to changes in the business environment.

This research also shows that the relationship between innovation and organizational performance does not always take place directly. Competitive advantage was found to be an important mechanism that explains how innovation can translate into better organizational outcomes. Innovations that succeed in creating product differentiation, operational efficiency, and superior customer experience will strengthen the organization's position in the market. Thus, competitive advantage serves as a bridge that connects innovation activities with the achievement of organizational performance. These results support the findings of Anwar (2018) who stated that business model innovation is able to increase organizational competitiveness, and is in line with the research of Farida and Setiawan (2022) which shows that competitive advantage is an important factor in achieving business success.

In addition, the results of the study show that business sustainability is an increasingly relevant dimension in assessing the success of organizations. Organizational performance in the digital economy era is not only measured by short-term profit achievements, but also the ability to maintain organizational growth and resilience in the long term. Continuous innovation enables organizations to create business processes that are more adaptive, efficient, and responsive to changing market needs. Therefore, business sustainability can be seen as both a result and a goal of the

organization's innovation strategy. These findings are consistent with the research of Cillo et al. (2019) which emphasizes the importance of sustainable innovation in creating long-term economic value as well as the research of Yusliza et al. (2020) which shows that sustainability practices have a positive contribution to organizational effectiveness.

On the other hand, the development of digital transformation has a significant influence on the pattern of relationships between innovation, competitive advantage, and organizational performance. Digital technology has opened up new opportunities for organizations to develop more flexible and customer-oriented business models. Organizations that are able to utilize digital technology effectively tend to have a higher ability to generate innovation and maintain a competitive advantage. These findings reinforce the view of Verhoef et al. (2021) who explain that digital transformation has changed the way organizations create value and interact with the market.

Overall, the results of the study show that innovation, competitive advantage, and business sustainability are interconnected elements in shaping organizational performance. The relationship shows that organizations need to develop strategies that are not only oriented towards the creation of innovation, but also on the ability to turn innovation into a competitive advantage capable of supporting business sustainability. These findings also reinforce the research results of Migdadi (2022) who affirm that innovation ability is one of the main factors that determine the success of organizations in facing increasingly complex economic challenges and business competition.

6. | CONCLUSION

This research shows that innovation has a very important role in supporting the improvement of organizational performance in the midst of increasingly complex modern economic dynamics. Innovation not only serves as a means to create new products, services, or processes, but also as a strategic instrument that allows organizations to adapt to changes in the business environment, technological developments, and changing market needs. Organizations that are able to develop innovation in a sustainable manner have a greater chance of maintaining their existence and improving their competitiveness in the long run.

The results of the study also show that the relationship between innovation and organizational performance takes place through mechanisms involving competitive advantage and business sustainability. Competitive advantage allows organizations to turn innovation into added value that is able to differentiate the organization from competitors. Meanwhile, business sustainability strengthens an organization's ability to sustainably maintain growth, resilience, and operational effectiveness. Thus, innovation, competitive advantage, and business sustainability are interrelated components and form an important foundation for the achievement of organizational performance.

In addition, the development of the digital economy further strengthens the importance of innovation as the main factor for organizational success. The ability to

utilize technology, manage knowledge, and create relevant value for customers are factors that determine the success of an organization in the face of increasingly dynamic competition. Therefore, organizations need to make innovation an integral part of their long-term business strategy supported by efforts to strengthen competitive advantage and business sustainability. Through this approach, organizations will be better able to create superior performance, maintain competitiveness, and achieve sustainable growth in an ever-evolving economic environment.

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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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