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ARTICLE

Regional Innovation as a Catalyst for Economic Growth

A Perception Study in Banyuwangi

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Abstract: This study analyzed public perceptions of regional innovation in Banyuwangi Regency. This study was conducted at the Banyuwangi Regional Government, the most innovative region in the last 5 years. This study adopts the theory of Regional Innovation and indicators in the Global Innovation Index (GII) and the Regional Innovation Index (IID). Data collection was carried out online with 311 respondents (N-311). The analysis method used a descriptive method with the SPSS 2017 application. The results of the analysis show that there is a relationship between public perceptions of regional innovation, generally having a very good category, but the product sophistication variable has an index value of 4.17 with the smallest good category compared to the index values of other variables, this is in line with the achievement of the Banyuwangi Regency regional innovation index in 2023 with an index value of 84.19 which experienced a decrease previously the index value in 2022, namely 96.3 where product sophistication was the lowest with a value of 44.5%. At the end of the research section, the author tries to recommend that the Banyuwangi Regency government improve the credit and investment system to improve the market sophistication variable in the regional innovation index.

Keywords: Banyuwangi; Regional Innovation; Perception.

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1. Introduction

Law Number 23 of 2014 concerning Regional Government emphasizes that each region must implement government innovation in their respective regions. As a derivative of this regulation, Government Regulation Number 38 of 2017 concerning Regional Innovation explains that innovation is a form of renewal in implementing regional government. This is clarified in Article 4 of the government regulation, which states that regional innovation can take the form of governance, public services, and/or other regional innovations in accordance with regional government affairs, which are the authority of the region in the implementation of regional government management, which includes internal governance in the implementation of management functions and management of management elements.

The Ministry of Home Affairs is important in encouraging regional innovation, as Government Regulation No. 38 of 2017 mandated. One concrete step is to initiate the Innovative Government Award (IGA) program, which is an award for regional governments that have succeeded in creating and implementing innovations to support more effective, efficient, and responsive governance. Through this program, regional innovations are measured and assessed based on their impact on regional public services and problem-solving. Regions that have succeeded in demonstrating significant creativity and innovation in facing challenges in their regions will receive the IGA award, which is not only a form of appreciation but also an encouragement for other regions to innovate. With this award, it is hoped that a healthy spirit of competition will be created between regions so that the growth of innovation can be accelerated, and regional development becomes more qualified and sustainable.

Table 1. Most Innovative District Governments

No.	YEAR				
	2018	2019	2020	2021	2022
1	Padang Pariaman	Banyuwangi	Situbondo	Banyuwangi	Banyuwangi
2	Banyuwangi	Kulon Progo	Wonogiri	Wonogiri	Bogor
3	Banggai	Malang	Bogor	Bogor	Wonogiri
4	Musi Rawas	Situbondo	Temanggung	Tabalong	Tabalong
5	Gresik	Banggai	Banyuwangi	Tegal	Sragen

Source: Ministry of Home Affairs of the Republic of Indonesia

Based on the Most Innovative Regency Region 2017-2022 category, Banyuwangi Regency has always been in the top 5 most innovative regencies. In addition to being named the most innovative region, Banyuwangi Regency has also received many other awards related to public services, regional development, and innovation (Kapiso & Ansar, 2022). Such as the first-rank award for local government performance for the district category (Tempo.co, 2023). In addition, from 2011 to 2022, the Banyuwangi Regency Government has received 227 international, national, and regional awards. In 2022, the Ministry of Home Affairs again designated Banyuwangi as the 'Most Innovative Regency' throughout Indonesia in the 2022 Innovative Government Award (IGA) competition (Husdinariyanto, 2022).

Table 2. Regional Innovation Index of Banyuwangi Regency and East Java Province 2021-2023

No.	Year	Banyuwangi Regency		East Java Province	
		Rank (Predicate)	Regional Innovation Index	Rank (Predicate)	Regional Innovation Index
1	2021	1/415 (Very Innovative)	84,19	3/34 (Very Innovative)	71,38
2	2022	1/415 (Very Innovative)	96,3	2/34 (Very Innovative)	72,82
3	2023	3/415 (Very Innovative)	86,94	6/38 (Very Innovative)	63,15

Source: Ministry of Home Affairs of the Republic of Indonesia

Based on Table 2, Banyuwangi Regency consistently has a higher regional innovation index than East Java Province during 2021-2023. This achievement makes it clear that Banyuwangi Regency has succeeded in maintaining and improving its government performance. Regional innovation in 2022 also experienced a significant increase in the innovation index to reach 96.3. Banyuwangi's superiority reflects Banyuwangi's success in implementing innovative policies that positively impact regional development. However, despite this, Banyuwangi's decline in ranking from first place in 2021 and 2022 to third place in 2023 indicates challenges in maintaining its regional innovation. This indicates that other regions can innovate faster or more efficiently in the same period.

Then, there is an innovation gap between regions within the province, where Banyuwangi, as one of the regencies, is far superior to other regencies/cities. As part of East Java Province, Banyuwangi's success should be a model for other regions in this province to improve their innovation. The success of regional innovation must be felt in real terms by the community, for example, through improving public services, ease of doing business or developing better infrastructure (Andari et al., 2022; Karya et al., 2024; Rofi et al., 2021).

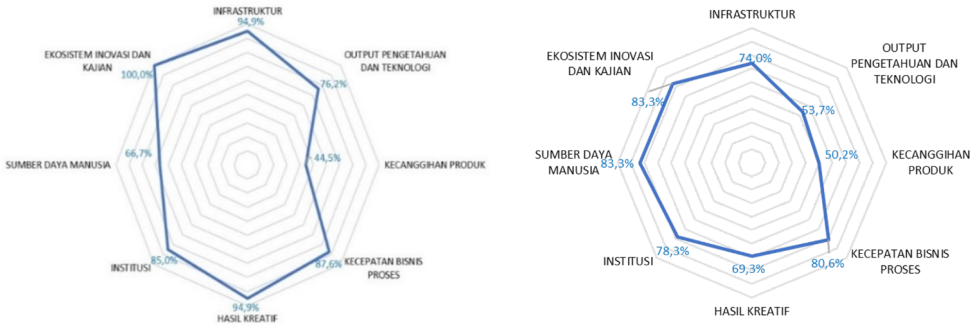

Figure 1. Distribution Map of Regional Innovation Variables in Banyuwangi Regency and East Java Province in 2023

Source: *Ministry of Home Affairs of the Republic of Indonesia*

Based on Figure 1, in 2023, the Banyuwangi Regency regional innovation index was 86.94, with a very innovative category, with distribution in each variable: Institutions: 85.0%, Human Resources: 66.7% Research/Innovation Ecosystem and Studies: 100%, Infrastructure: 94.9%, Product Sophistication: 44.5%, Business Process Speed: 87.6%, Knowledge Output: 76.2%, and Creative Results: 94.9%.

With a human resources achievement of 66.7%, it shows that human resource development is still a significant challenge for Banyuwangi. Although HR plays a crucial role in supporting innovation, the relatively lower percentage compared to other variables indicates challenges regarding human resources in Banyuwangi. Human resources as human capital have a central role in increasing economic growth. For this reason, further investment is needed in training, education, and capacity development to create a more adaptive and innovative workforce (Abdullah, 2014, p. 122).

The lower Product Sophistication variable (44.5%) indicates an imbalance between the ability to produce knowledge (academics) and its application in the form of innovative products (industry). This is in line with the triple helix theory, which states the need to strengthen the relationship between universities and the business world to encourage the downstream of research results into more sophisticated and

highly economically valuable products (Etzkowitz, 2002). The Business Process Speed variable reaching 87.6% reflects that Banyuwangi has created an efficient bureaucratic process. With strong institutions (85%) and supporting infrastructure (94.9%), Banyuwangi has a solid institutional foundation to encourage innovation. However, cross-sector collaboration still needs to be improved, especially in strengthening the connectivity between the innovation ecosystem and the market so that high creativity (94.9%) can produce a broader economic impact.

Although Banyuwangi has recorded various successes as the most innovative region, new challenges continue to emerge, especially related to the community's ability to operate digital applications. Based on the results of As'adi's research (2024), Not all Banyuwangi residents have adequate digital literacy, so technology-based innovations are not yet fully inclusive. The elderly, for example, often face difficulties in using online platforms to access public services, so they have to rely on help from family or special officers. This low digital literacy also has the potential to cause errors in filling in data or using services, which can ultimately slow down the administrative process.

On the other hand, the results of the Public Satisfaction Index (IKM) survey on public services in Banyuwangi in 2023 showed an achievement of 91.50 percent, with a realization exceeding the target of 100.97 percent (Anggiawati, 2024). However, this figure reflects general public satisfaction without delving into whether all groups in society feel the positive impacts of innovation equally. Such administrative or technocratic successes need to be further tested through an in-depth exploration of how people across different demographics perceive innovation.

Reflecting on the background above, this study aims to understand the perception of the Banyuwangi community towards the regional innovation policy that the Banyuwangi Regency Government has implemented. The main focus is to evaluate how the community assesses the success of the innovation, especially in relation to economic development in the region. Challenges such as inequality of perception, low digital literacy, and gaps in access to public services are important to examine to ensure that regional innovation is recognized at the national level and provides real and equitable benefits for all levels of society. Research that examines public perceptions of this innovation, including looking at differences based on age, gender, education, and occupation, can provide a more inclusive picture of the impact of the success of Banyuwangi's innovation.

Research related to public perception of Banyuwangi regional innovation and the quality of public services in Banyuwangi has never been conducted so far. There are several relevant studies related to this, for example, Muzaki et al. (2023) which examines the relationship between service quality, innovation, and public trust at the Population and Civil Registration Service of Banyuwangi Regency. This study shows that service quality and innovation significantly impact public satisfaction and trust, with public satisfaction as an intervening variable. Widuri et al. (2024) also highlighted the impact of service quality on community satisfaction but with a focus on the Sobo Village Office, Banyuwangi District. This study found that the contribution of service quality to community satisfaction reached 63.9%, indicating the importance of good service to meet the expectations of local communities.

Similar studies but with different locus include the work of Nender et al. (2023), which examines public perceptions of the performance of village officials in improving public services in Tumpaan Village, Tumpaan District, South Minahasa Regency. The findings reveal that village officials' quality of public services is considered good, although the quantity of services fluctuates. Zainab (2020)

researching public perceptions of the quality of public services of Mobile SAMSAT in Banjarmasin City, found that the service was quite good but still faced challenges such as human resources and digital culture. Anggraini and Rahayuningsih (2021) examine the quality of public services at the one-stop SAMSAT office in Banten Province. This study shows good service quality in general, with a Public Satisfaction Index score of 75.66, but several elements, such as service time and complaint handling, still need improvement.

Unlike the previous studies above, this study focuses on public perceptions of regional innovation policies in Banyuwangi Regency as a whole, not just on one particular service sector. In addition, this study explores variations in public perceptions based on demographic characteristics such as age, gender, education, and occupation. This approach provides a more comprehensive picture of how various community groups receive regional innovations. By highlighting the gap between administrative success and the real impact felt by the community, this study also offers a new perspective on the challenges of digital literacy that affect the accessibility and utilization of technology-based services. This is relevant in innovation in an inclusive and equitable digital era. Reflecting on the background that has been described, regional innovation is an important element in improving the quality of public services and the competitiveness of a region. Banyuwangi Regency, one of the regions known for its various innovations, attracts attention for further research, especially in public acceptance of the innovation policies implemented. By understanding public perceptions, it can be seen to what extent the innovation has a positive impact and whether there are differences in perception based on certain characteristics, such as age, gender, education level, and type of work. Therefore, this research was formulated to answer several basic questions related to this matter.

a. How do the people of Banyuwangi view the innovation policies implemented by the regional government of Banyuwangi Regency?
b. Are there any differences in public views on Banyuwangi Regency's regional innovation policies based on age, gender, education level and type of work?

2. Methods

This study uses a quantitative method with a survey approach to measure public perception of regional innovation in Banyuwangi Regency. Innovation, according to Mulgan (2019), has the main characteristic of novelty, which means that the innovation replaces previously existing objects, systems, or technologies. Reflecting on this theory, the next question is whether the innovation implemented can provide a positive and effective impact in improving the quality of service (Rofi et al., 2021). In this study, the Regional Innovation Index is used as a theoretical basis for measuring the level of regional innovation. This index includes seven variables, most of the indicators of which are adapted from the Global Innovation Index (GII). These variables are divided into two main components, namely input components, which include (1) Institutions, (2) Human Resources and Research, (3) Infrastructure, (4) Product Sophistication, and (5) Business Process Speed and output components consisting of (6) Knowledge and Technology Output, and (7) Creative Results. This theoretical framework is used to analyze various factors that influence regional innovation and their impact on the quality of services produced. Based on the results of the 2021-2023 Regional Innovation Index, Banyuwangi Regency has a higher index value than East Java Province.

The population of the study was the entire community of Banyuwangi Regency, which was involved or had views related to regional innovation, including the general public, academics, and local government employees. From this population, the sampling technique used proportionate stratified random sampling based on demographic characteristics, such as gender, age, education, and occupation (Masbiran et al., 2022). The number of samples was calculated using the Slovin formula with a margin of error of 5%, resulting in a total sample of 311 respondents.

2.1. Basis for Sampling Determination

The sample consisted of various demographic groups, namely:

Gender : 145 females (46.6%) and 166 males (53.4%).

Age : The largest age group is 21-30 years (39.9%), followed by other age groups.

Education : Most respondents have a Bachelor's degree (43.4%).

Occupation : The majority of the sample came from civil servants (31.8%), with other occupations represented proportionally.

2.2. Instruments and Measurement of Variables

This study measures variables by dividing them into input and output components. Input variables include X1 (Institution), X2 (HR and Research), X3 (Infrastructure), X4 (Product Sophistication), and X5 (Business Process Speed). Output components include X6 (Output and Knowledge) and X7 (Creative Results). Measurements are made using a five-point Likert scale, from "strongly disagree" to "strongly agree". Before being used, the research instrument was tested for validity and reliability. Validity testing was carried out to ensure that each item in the questionnaire was able to measure the intended variable, while reliability testing used Cronbach Alpha to ensure data consistency.

2.3. Conceptual Framework

The conceptual framework of this study places input variables as factors that influence public perception of regional innovation. Output variables are used to evaluate the results of the innovation. This relationship is analyzed to see the public's perception as a whole.

2.4. Research Hypothesis

a. There is a positive relationship between input components (X1, X2, X3, X4, X5) and public perception of regional innovation.

b. There are differences in perceptions of regional innovation based on demographics (age, gender, education, and occupation).

2.5. Data Analysis

Data were analyzed using descriptive and inferential statistics. Descriptive analysis was used to describe the frequency distribution of respondents based on demographics and their tendency of perception toward regional innovation. Inferential tests, such as ANOVA or t-test, were used to test the second hypothesis, namely the difference in perception between demographic groups.

2.6. Categories and Scale Ranges

To determine the perception category, a scale interval is used based on the formula:

$$RS = \frac{(m-n)}{b} = \frac{(5-1)}{5} = 0.8$$

The average perception value categories are grouped as follows (Simamora, 2005):

- Very High (4.20 < X ≤ 5.00)
- High (3.40 < X ≤ 4.20)
- Medium (2.60 < X ≤ 3.40)
- Low (1.80 < X ≤ 2.60)
- Very Low (1.00 < X ≤ 1.80)

With this approach, the research method provides a clear basis for measuring public perceptions of regional innovation, including explaining the population, sample, sampling techniques, variable measurements, and data analysis techniques.

3. Results and Discussion

3.1. Public Perception of Regional Innovation

Based on the results of the analysis of public perception data on regional innovation in Banyuwangi Regency based on the following variables:

Table 3. Public Perception of Regional Innovation Based on Variables

NO.	ITEM CODE	VARIABLES	INDEX CRITERIA	INDEX
1	X1	Institution (X1)	Very good	4,33
2	X2	Human Resources and Research (X2)	Very good	4,37
3	X3	Infrastructure (X3)	Very good	4,32
4	X4	Market Sophistication (X4)	Good	4,17
5	X5	Business Sophistication	Very good	4,24
6	X6	Knowledge and Technology Output (X6)	Very good	4,39
7	X7	Creative Results	Very good	4,45

Source: Data Processed by Researchers 2024

Based on the measurement results, it can be concluded that public perception of various variables related to regional economic development shows very good results. In the Institution variable (X1), which includes perceptions of institutions and governance, the majority of respondents (60%) strongly agree with the statement submitted, resulting in an index of 4.33, which is in the "Very Good" category. The HR and Research variable (X2) shows that 63% of respondents strongly agree with the statement referring to the level of education and research activities, with an index of 4.37, also in the "Very Good" category. A similar thing can be seen in the Infrastructure variable (X3), where 55% of respondents gave a strongly agreed assessment, with an index of 4.32, indicating a positive perception of the quality of infrastructure.

Furthermore, in the Market Sophistication variable (X4), which relates to credit mechanisms, investment, and access to markets, most respondents (49%) strongly agree. However, the index is slightly lower, namely 4.17, which still indicates a good perception. On the other hand, the Business Sophistication (X5) and Knowledge and Technology Output (X6) variables, which assess the involvement of universities and regional innovation, each obtained very good indexes, namely 4.24 and 4.39, with

58% and 58% of respondents strongly agreeing. Finally, the Creative Output (X7) variable, which measures the impact of innovation policies on community creativity, obtained the highest index, 4.45, with 62% of respondents strongly agreeing.

Based on the results of the analysis of public perception data on regional innovation in Banyuwangi Regency based on the following indicators:

Table 4. Public Perception of Regional Innovation Based on Indicators

NO.	ITEM CODE	INDICATOR	INDEX CRITERIA	INDEX
1	X11	Political Environment (X11)	Very good	4,42
2	X12	Rules (X12)	Very good	4,31
3	X13	Business Environment (X13)	Very good	4,27
4	X21	Education and Research (X21)	Very good	4,37
5	X31	Information and Communication Technology (X31)	Very good	4,48
6	X32	General Infrastructure (X32)	Good	4,18
7	X33	Continued Development (X33)	Very good	4,33
8	X41	Credit (X41)	Good	4,15
9	X42	Investment (X42)	Good	4,07
10	X43	Trade, competition and market scale (X43)	Very good	4,23
11	X51	Innovation Linkages (X51)	Very good	4,24
12	X61	Creation, Impact and Diffusion of Knowledge (X61)	Very good	4,39
13	X71	Creative Goods and Services (X71)	Very good	4,45

Source: Data Processed by Researchers 2024

The results are generally very good, but some variables are still in the good category, namely Market Sophistication (X4) with an index value of 4.17. If you look at the depth of the Credit indicator (X41), the index value is 4.15 (Good), the Investment (X42) index value is 4.07 (Good), and the Trade, competition, and market scale (X43) index value 4.23 (very good), and in the infrastructure variable, the general infrastructure indicator (X32) 4.18, which means it has a good index category. This is in line with the results of the Banyuwangi Regency Regional Innovation Index in 2023, where the product sophistication variable is the lowest compared to other variables, namely 44.5%. So, it needs to be the next concern.

In other variables, it is included in the very good index, where the more positive public perception of regional innovation will have a positive impact on the community's economy, such as the innovation implemented by Banyuwangi Regency, namely the innovation of handling stunting through the innovative Banyuwangi Tanggap Stunting (BTS) program, with this innovation, residents can actively participate in handling and supervising stunting, in addition, the multiplier effect is widespread, not limited to handling stunting, but also providing economic improvements to the community involved (Rimawati, 2023). This is also in line with research conducted by Natário and Couto (2022) which states that the effectiveness of government and regulation and national culture (HR) is closely related to the development of innovation capacity to encourage innovation in the public sector. Where based on public perception, the relationship between institutions and HR falls into the very good category, with each index value of 4.33 and 4.37.

This study also asked 311 respondents regarding the innovation policies that the government has implemented on research question X1 (X111, X121, X124, and X131). Furthermore, the data was processed using the SPSS 17 Application by considering age, occupation, and education the crosstab and chi-square results were obtained as follows:

Table 5. Conclusion Respondents' Answers Regarding Policies Based on Age

Variables	Significance	Conclusion
X111: Innovation development by regional leaders	0.384	Not significant, no strong relationship based on age.
X121: Government support for community potential	0.005	Significant, there is a strong relationship based on age.
X124: Ease of public services in sub-districts/districts	0.002	Significant, there is a strong relationship based on age.
X131: Reduction of licensing procedures	0.003	Significant, there is a strong relationship based on age.

Source: Research data processed using SPSS 17 Software in 2024. (note Sig <0.05)

Age differences do not significantly affect respondents' perceptions of innovation emphasized by regional leaders in governance, with a Pearson Chi-Square value of 0.384 > 0.05. However, age is significantly related to perceptions of government support for community potential and efforts to improve welfare and efficiency of service and licensing processes, with Pearson Chi-Square values of 0.005, 0.002; and 0.003, respectively, which means <0.05.

Table 6. Respondents' Answers Regarding Policies Based on Work

Variables	Significance	Conclusion
X111: Innovation development by regional leaders	0.551	Not significant, no strong relationship based on occupation.
X121: Government support for community potential	0.009	Significant, there is a strong relationship based on occupation.
X124: Ease of public services in sub-districts/districts	0.000	Significant, there is a strong relationship based on occupation.
X131: Reduction of licensing procedures	0.000	Significant, there is a strong relationship based on occupation

Source: Research data processed using SPSS 17 Software in 2024. (note Sig <0.05)

Furthermore, differences in jobs do not significantly affect respondents' perceptions of innovation emphasized by regional leaders in governance, with a Pearson Chi-Square value of 0.551 > 0.05. However, jobs are significantly related to perceptions of government support for the community's potential to improve welfare and the economy, as well as ease of service processes and efficiency of licensing procedures, with Pearson Chi-Square values of 0.009, 0.000; and 0.000, respectively, which means <0.05.

Based on differences in education, respondents' perceptions of innovation emphasized by regional leaders in governance and government support for community potential to improve welfare and the economy, as well as ease of service processes and efficiency of licensing procedures, showed a significant relationship with Pearson Chi-Square values of 0.032; 0.012; 0.000; and 0.000, respectively, which means <0.05. The findings of the hypothesis testing explain the relationship between the variables tested, with 311 respondents having the characteristics described in the descriptive analysis. Based on data testing, seven independent variables and three dependent variables in the research model have met the criteria for hypothesis testing. These findings indicate that variable X has a significant effect on poverty, unemployment, and investment, which in turn will affect economic growth (increasing).

3.2. Analysis of Public Perception

Based on the existing findings, public perception of regional economic development shows good results in most tested variables. However, several variables, including Market Sophistication (X4), still need attention. This variable obtained a lower value but remains in the good category. This indicates that potential has not been optimally developed regarding credit, investment, and trade that can strengthen the regional economy. This finding also supports the research of Natário and Couto (2022), and Sastra Wijaya (2024), which emphasizes the importance of regulatory effectiveness, innovation capacity, and human resources in driving public sector innovation. The decline in the value of product sophistication in the 2023 Banyuwangi Regency

Regional Innovation Index, which is one of the inhibiting factors, indicates that there is room to improve product quality and market competitiveness in the area.

In this context, Schumpeter in his theory of Economic Innovation (Priyono & Ismail, 2012), can be used to analyze this phenomenon. According to Schumpeter, innovation in new products and improving product quality are key to economic growth. Therefore, local governments need to increase efforts in introducing new technologies, improving product quality, and strengthening the market sector to support a more competitive regional economy.

In addition, the results of the hypothesis testing that show a significant influence between the variables of poverty, unemployment, and investment on economic growth illustrate the importance of policies that support job creation, increased investment, and poverty reduction. This is in line with the theory of economic development of Todaro and Smith (2006) which emphasizes that policies that support job creation and investment can accelerate economic growth. In this case, innovation strategies implemented by local governments, such as the Banyuwangi Tanggap Stunting (BTS) program, play an important role in creating new job opportunities and improving the community's quality of life. The program focuses on health and empowers the community to be more active in the economy, which further contributes to reducing poverty and unemployment rates. Therefore, a holistic innovation policy, which includes the health and economic sectors, is very relevant in creating a broad positive impact on the community.

The influence of demographic factors on public perception also cannot be ignored. Findings showing the importance of age, occupation, and education as factors influencing public perception of regional innovation policies indicate that policies implemented must consider the community's demographic characteristics. The concept of social innovation proposed by Sofia (2017) stated that the success of innovation implementation is highly dependent on community acceptance. Therefore, more inclusive policies tailored to the needs and characteristics of different community groups will be more easily accepted and implemented effectively. For example, programs tailored to the needs of young age groups or educated groups will have a greater impact in stimulating community participation in the development process.

In addition, the success in reducing poverty and unemployment in Banyuwangi Regency, with a decrease in poverty rates from 8.07% to 7.34%, shows that the innovation policy implemented by the local government has succeeded in achieving its goals. Regional Innovation Theory by Okuputra and Nasikh (2022) mentioned that regional innovation plays an important role in reducing poverty and improving welfare. Innovation is not only limited to the business sector but also in terms of social policies that can create direct benefits for the community. In this case, policies such as Banyuwangi Tanggap Stunting (BTS) show that innovation in health policies can have a very significant impact on community welfare, which in turn improves their quality of life and encourages economic growth.

However, improvements in the credit, investment, and market sectors are still needed to support more inclusive and sustainable economic growth. Low market sophistication indicates that the market sector has not been fully optimized to access resources that can accelerate the economy. Schumpeter's theory of economic innovation is relevant here because innovation in the financial and market sectors can open up new investment opportunities to support the regional economy. Mulyani and Mudiantono (2015) and Muhlisin et al. (2015), said that innovation greatly influences marketing performance in MSMEs, and knowledge and technology can

drive regional innovation policies. In addition, significant regional innovation reduces poverty and improves welfare (Okuputra & Nasikh, 2022). The significant influence of regional innovation on poverty, unemployment, and investment is also seen in the decline in poverty rates in Banyuwangi Regency from 8.07% to 7.34%, as well as the continued increase in economic growth. In addition, Huang's findings (2022) regarding entrepreneurship policy in implementing regional innovation show a significant impact, which is also reflected in this study. All these findings indicate that regional innovation has a crucial role in driving economic development, creating jobs, and improving the quality of life of the community.

While several innovation policies have successfully reduced poverty and unemployment, the challenge lies in improving market competitiveness and investment accessibility. Although still in the good category, lower market sophistication reflects gaps in technology adoption and local financial sector development. Porter (1985) stated that to create sustainable economic growth, a region must develop competitive advantages that can maintain long-term market dominance. In this context, Banyuwangi needs to focus more on developing infrastructure supporting market digitalization, utilizing big data for market analysis, and policies facilitating access to capital for MSMEs. Improving market quality will not only affect the competitiveness of local products but will also accelerate the flow of investment needed to boost the regional economy.

In addition, although regional innovation policies have succeeded in reducing poverty rates, it should be noted that this success has not been fully distributed across all levels of society. In Marlina and Ahman's research (2015), According to Schultz (1961) and Becker (1964) stated that investment in human resources (HR) is key to sustainable poverty reduction. In other words, although innovations such as the Banyuwangi Tanggap Stunting (BTS) program can provide short-term health benefits, in the long term, poverty reduction will be more effective if balanced with greater investment in education and skills training that are relevant to current labor market needs. Therefore, local governments need to adjust innovation policies to more specific HR development needs, such as digital and entrepreneurship skills training programs that can increase the competitiveness of the local workforce.

Furthermore, although increased investment is one of the positive impacts of regional innovation, improving the quality of incoming investment is the bigger challenge. International investment theory states that the success of a region in attracting investment depends not only on fiscal and infrastructure policies but also on the existence of a conducive business environment and investor confidence in political and social stability (Durnev et al., 2014). In the context of Banyuwangi, although innovation policies have created a more conducive climate, there are still challenges in creating a more inclusive and transparent business ecosystem. Therefore, policies are needed that not only facilitate investment but also ensure that the investment provides added value for sustainable and equitable economic development.

Ultimately, collaboration between local governments and communities in encouraging innovation is the main key to the success of sustainable economic development (Hutagalung & Hermawan, 2018; Salsabila et al., 2024). The Theory of Collaboration in Leadership, which emphasizes the importance of cooperation between various parties to achieve common goals, is very relevant in this context. Local governments that build partnerships with communities and the private sector will be better able to create policies that are right on target and sustainable. Collaboration-based programs, such as Banyuwangi Tanggap Stunting, show that

innovations that involve active community participation can create broader and more sustainable impacts in the long term (Klingler-Vidra & Ye, 2020). Therefore, strengthening collaboration between government, society, and the private sector is very important to encourage better economic transformation in the regions.

4. Conclusion

The study results show that public perception of regional innovation in Banyuwangi Regency is generally very positive. Respondents assessed several variables related to regional economic development, such as institutions, human resources, infrastructure, and local business and innovation potential. The high public perception index reflects the broad acceptance of innovation policies implemented by the local government, including programs such as Banyuwangi Tanggap Stunting (BTS), which are effective in dealing with stunting and have a positive economic impact on the community. This success is in line with the economic innovation theory, which emphasizes innovation's importance as the main driver of regional economic growth. However, this study also found that the market sophistication variable had a relatively lower index value than other variables. This shows that credit, investment, and trade aspects still require more attention to support inclusive and sustainable economic growth. The decline in the index on this variable indicates challenges in developing more efficient and inclusive market mechanisms. Therefore, although innovation in the institutional and human resource fields has produced significant results, the challenge of strengthening the local financial system and market accessibility is still the main focus for improvement.

Related to the research hypothesis, the test results show a significant relationship between regional innovation and economic indicators, including poverty reduction, unemployment reduction, and increased investment. This finding is relevant to the theory of economic development, which emphasizes the importance of policies that support job creation, equal welfare distribution, and increased economic productivity. Thus, regional innovation implemented in Banyuwangi has succeeded in providing a positive impact on the main indicators of economic development, although there is still room for improvement in certain sectors.

As a recommendation, the Banyuwangi regional government is advised to pay special attention to developing the market sophistication sector by expanding public access to credit, investment, and trade. In addition, the simplification of the licensing process and the increase in bureaucratic efficiency must be strengthened to support a more conducive business climate. Support for the small and medium enterprise (SME) sector must also be increased, especially through programs that facilitate access to capital, skills training, and opening up market access to increase the competitiveness of local products.

Furthermore, periodic monitoring and evaluation of regional innovation policies are needed to ensure that the programs implemented truly provide broad benefits to the community. Data-based approaches and community participation must be a priority in every policy designed so that the community feels involved and responsible for supporting the success of these programs. Considering these recommendations, it is hoped that regional innovation in Banyuwangi can continue to develop, significantly contribute to regional economic development, and sustainably improve community welfare. Further research is recommended to focus on a more in-depth analysis of market sophistication variables, including specific factors that influence community access to credit, investment, and trade at the local level. This research can also expand its scope by exploring the role of digital technology and

e-commerce platforms in supporting the integration of local and global markets. In addition, an evaluation of the effectiveness of innovation policies that have been implemented, such as the Banyuwangi Tanggap Stunting (BTS) program, can be carried out through a longitudinal method to measure the long-term impact on poverty alleviation, unemployment reduction, and increased investment. This study can also add a comparative approach with other regions that have similar levels of innovation to identify the best strategies that can be adopted more widely.

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