Digital Transformation as a Driver of Total Factor Productivity: Empirical Insights from South African Firms

Jiying Wu [1]

[1]School of Finance and Economics, Jiangsu University, Zhenjiang, Jiangsu, China

Kase Mokeso Shabani[1] (Corresponding Author)

[1]School of Finance and Economics, Jiangsu University, Zhenjiang, Jiangsu, China

ABSTRACT

This study examines the impact of digital transformation (DT) on total factor productivity (TFP) among 845 listed South African firms from 2018 to 2022. Using panel regression with fixed effects and instrumental variables, the analysis finds a strong positive link between DT and TFP. It explores two mechanisms: technological cooperation (TC) as a mediator and organizational innovation capabilities (OIC) as a moderator. Mediation analysis confirms that TC significantly transmits DT's effect on TFP (Sobel Z = 4.587; CI: [0.027, 0.066]), while moderation results show that OIC strengthens this relationship ($\beta = 0.037$, $p < 0.001$). Sectoral analysis highlights Manufacturing, Financial Services, and Healthcare as top beneficiaries. A short-term negative effect from R&D is observed, likely due to time lags. The findings offer actionable insights for leaders and policymakers to align digital strategies with innovation systems and collaborative networks, contributing to research on digital transformation and productivity in emerging economies.

Key words: Digital Transformation, Total Factor Productivity, Technological Cooperation, Organizational Innovation Capabilities**,** Econometric modeling

JEL Classification: O33, L25

Introduction

Digital transformation (DT) is reshaping economies worldwide, driving innovation, efficiency, and competitiveness [1]. The African Union's Agenda 2063 envisions a digitally empowered continent, with South Africa emerging as a regional leader in digital adoption [2]. However, despite its potential, South Africa faces barriers such as limited technology access, uneven digital infrastructure, and socioeconomic inequalities, hindering its full transition into a digital economy[3]. While DT enhances productivity, its adoption in South Africa has been uneven, affecting enterprise performance and economic growth [4]. The country's historically dominant sectors, such as mining and agriculture, have declined in significance, while finance and business services have thrived due to digital advancements [5]. However, the extent to which digital transformation influences total factor productivity (TFP) remains underexplored, necessitating further empirical analysis [6].

This study evaluates the impact of DT on TFP among South African enterprises. Specifically, it examines the level of digital adoption, the mediating role of technological cooperation (TC), and the moderating effects of organizational innovation (OI). The research focuses on listed South African firms from 2018 to 2022, providing insights relevant to policymakers and business leaders. Existing literature highlights DT as a key enabler of productivity, improving efficiency and market competitiveness [7]. Theoretical frameworks such as transaction cost economics and resource-based views suggest that digitalization optimizes resource allocation and innovation [8]. However, research on the specific impact of digital transformation on TFP in South Africa remains limited, justifying this study's focus.

The study employs a panel data econometric approach, analyzing financial statements and industry reports from 845 listed South African firms. Regression models assess the relationship between digital adoption and TFP, with robustness checks, mediation, and moderation analyses to validate findings. This research provides valuable insights into how digital transformation drives enterprise productivity. For businesses, it highlights the importance of integrating digital tools to enhance efficiency. For policymakers, it offers guidance on fostering digital adoption through supportive infrastructure and innovation strategies. Academically, it fills a gap in understanding the mechanisms linking digital transformation to productivity in emerging economies.

The paper is structured as follows: Section 2 reviews existing literature on digital transformation and productivity and builds the hypotheses. Section 3 presents the data and variables. Section 4 details the research methodology, including data collection and econometric modeling. Section 5 discusses empirical findings, while Section 6 concludes with recommendations for businesses and policymakers.

Literature review and hypotheses development

In emerging economies like South Africa, DT plays a crucial role in improving TFP, which measures the efficient use of labor and capital [9].However, its impact varies due to mediating and moderating factors. The relationship of DT on TFP is supported by economic and management theories [10]. The Solow Growth Model views technological progress, including DT, as essential for long-term economic growth by optimizing processes and resource use [11]. Schumpeter's Theory of Creative Destruction suggests that firms adopting DT can gain a competitive edge by innovating and reshaping traditional markets [12].The Resource-Based View (RBV) suggests that firms gain a competitive advantage by leveraging unique and valuable resources [13].TC facilitates knowledge sharing and resource integration, enhancing firms' ability to utilize DT for higher productivity [14]. Research shows that collaboration in tech-intensive industries boosts absorptive capacity, driving innovation and productivity growth [15].

The Dynamic Capabilities Theory highlights firms' ability to adapt to technological change by reconfiguring competencies [16].OI plays a crucial role in determining how effectively DT enhances productivity. Firms with strong innovation capabilities can better navigate digital disruptions and leverage new technologies, driving TFP growth [17].The interplay between DT, TC, and OI highlights a complex but structured pathway through which digitalization enhances productivity. DT provides the technological foundation for business transformation, but its effectiveness depends on firms' ability to collaborate TC and innovate OI. Hence we propose the hypothesis as follows;

H1. Digital transformation has a positive direct impact on the total factor productivity of South African enterprises.

Empirical research suggests that firms leveraging digital technologies, such as automation, cloud computing, artificial intelligence, and big data analytics, experience significant productivity gains through optimized processes, reduced operational costs, and improved decision-making capabilities [18].The Solow-Swan growth model underscores the importance of technological progress in driving TFP, emphasizing that improvements in digital infrastructure contribute to long-term productivity growth[19]. Additionally, Schumpeter's theory of creative destruction highlights how technological innovations reshape industries by fostering new business models and increasing market competition[20].

In South Africa, where businesses face persistent productivity challenges due to infrastructural constraints and economic volatility, digital transformation presents an opportunity to enhance firm-level efficiency and sustain long-term growth [21]. Empirical findings indicate that firms implementing digital transformation initiatives observe significant improvements in operational efficiency and cost reduction[22]. Similarly, digital technologies provide African enterprises with the tools to overcome economic stagnation by improving resource allocation and market responsiveness [23].

H2: Technological cooperation mediates the relationship between digital transformation and total factor productivity in South African enterprises.

TC refers to the collaboration between firms, research institutions, and technology providers to share knowledge, develop new technologies, and improve innovation capabilities [24]. Research indicates that firms engaged in technological collaboration benefit from faster knowledge diffusion, enhanced innovation output, and increased productivity[25]. The resource-based view (RBV) theory posits that firms with access to unique technological resources and collaborative networks are better positioned to achieve competitive advantage[13].

The role of TC in digital transformation is particularly relevant in emerging economies like South Africa, where access to advanced technology and digital expertise remains unevenly distributed [26]. Empirical studies suggest that enterprises engaging in technological cooperation—whether through strategic partnerships, open innovation networks, or government-supported R&D programs—can accelerate their digital adoption and amplify the productivity benefits of digital transformation [27].

For example, a study found that inter-organizational knowledge acquisition significantly boosts radical innovation, leading to improvements in firm performance [28]. Similarly, another empirical research highlighted that firms engaging in external technical cooperation are more likely to implement digital solutions effectively, thereby increasing their productivity [29].Thus the importance of knowledge-sharing and collaborative innovation in strengthening digital capabilities.

H3: Organizational innovation moderates the relationship between digital transformation and total factor productivity in South African enterprises.

OI refers to the ability of firms to implement new management practices, operational processes, and business models to enhance efficiency and adaptability [30].The dynamic capabilities framework suggests that firms with strong organizational innovation capabilities can better leverage digital transformation to achieve sustained productivity gains [31].Research highlights that firms with a high degree of organizational innovation are more likely to integrate digital technologies effectively and optimize their impact on productivity[32]. Conversely, organizations with rigid structures and low adaptability may struggle to fully capitalize on digital transformation, leading to suboptimal productivity outcomes[33].

Empirical evidence supports the moderating effect of OI on DT outcomes. A study found that firms with high innovation capabilities experienced greater productivity gains from digital adoption than those with low innovation capabilities [34]. Similarly, research in the healthcare sector demonstrated that organizations with strong innovation capabilities could implement digital technologies more effectively, resulting in substantial productivity improvements [35]. Hence the role of organizational innovation in shaping the effectiveness of digital transformation.

Data and variables

3.1 Data

This study utilizes panel data from 845 listed South African enterprises (2018–2022), integrating secondary sources such as corporate reports, industry databases, and macroeconomic indicators. Digital transformation (DT) is measured via ICT investment ratios, total factor productivity (TFP) via the Levinsohn-Petrin approach, and technological cooperation (TC) through joint patent filings. Organizational innovation capabilities (OIC) are assessed using R&D intensity and new product launches. A structured survey supplements firm-level digital adoption trend. Panel econometric techniques in STATA 15 and IBM SPSS 26 support hypothesis testing and causal inference.

3.2 Variables

TFP, the dependent variable, represents firm-level efficiency in transforming labor and capital inputs into output and is measured using the Levinsohn-Petrin (LP) approach to control for unobserved productivity shocks. The independent variable, DT, is assessed through the ratio of ICT investments (hardware, software, and digital infrastructure) to total assets, capturing firms' digital adoption intensity.

Technological cooperation (TC) functions as a mediator, representing firms' collaborative efforts in innovation, measured by the natural logarithm of joint patents filed with external partners. This mechanism reflects the role of inter-firm knowledge exchange in driving productivity gains. Organizational innovation capabilities (OIC) moderate the DT-TFP relationship, accounting for firms' ability to generate, assimilate, and apply new knowledge. It is measured through R&D intensity (R&D expenditures relative to revenue) and the number of new product or process innovations introduced.

Key control variables include firm size (log of total assets), labor and capital intensity, profitability (return on assets), financial leverage, market share, human capital (employee skill levels), and industry-specific factors. These variables account for structural differences among firms that could influence productivity outcomes. By integrating these measures into a panel data econometric model, the study aims to provide empirical insights into how digital transformation influences productivity, mediated by technological cooperation and conditioned by innovation capabilities.

Empirical method

To test the hypotheses, we adopt the following regression mode:

To estimate the effects of digital transformation on total factor productivity, a panel data regression model is applied. The baseline model is specified as follows:

$$TFP_{it} = \beta_0 + \beta_1 DT_{it} + \beta_2 Z_{it} + \gamma_t + \delta_r + \epsilon_{it} \quad (1)$$

Where TFP_{it} and DT_{it} is the total factor productivity and digital transformation respectively of firm i at time t. Zu represents the control variables: Firm Size, Financial Leverage, Research and Development Intensity, Firm Age and Inventory Turnover and return on assets (ROA). γ_t represents year fixed effects to control for time-specific influences. δ_r region fixed effects to account for regional differences and ϵ_{it} is the error term.

$$TC_{it} = \beta_0 + \beta_1 DT_{it} + \beta_2 Z_{it} + \gamma_t + \delta_r + \epsilon_{it} \quad (2)$$

Where TC_{it} is the level of technological cooperation for firm i at time t. $\beta_1$captures the effect of digital transformation on technological cooperation. Other variables remain as defined above.

$$TFP_{it} = \beta_0 + \beta_1 DT_{it} + \beta_2 TC_{it} + \beta_3 Z_{it} + \gamma_t + \delta_r + \epsilon_{it} \quad (3)$$

Where $\beta 1$ represents the direct effect of digital transformation on TFP. $\beta 2$ measures the effect of technological cooperation on TFP, capturing the mediating effect.

$$TFP_{it} = \beta_0 + \beta_1 DT_{it} + \beta_2 OIC_{it} + \beta_3 (DT_{it} \times OIC_{it}) + \beta_4 Z_{it} + \gamma_t + \delta_r + \epsilon_{it} \quad (4)$$

Where $OICit$ represents organizational innovation capabilities for firm i at time t. $DTit \times OICit$ is the interaction term that captures the moderating effect.

Empirical results

5.1 Baseline results

The regression results in Table 1 consistently show a significantly positive coefficient for the DT Index across all model specifications, suggesting a strong and stable relationship between DT and TFP. The magnitude of the DT coefficient remains at 0.891 with a standard error of 0.025, indicating a robust impact of digital adoption on TFP outcomes. This finding aligns with the expectations that digital technologies enhance operational efficiency and resource utilization. As more control variables are introduced from Model (2) through Model (7), the DT coefficient remains statistically significant at the 1% level, reinforcing its pivotal role in driving firm performance. Firm Size also shows a positive and consistent influence on TFP, with a coefficient of 0.532, highlighting the TFP advantages of scale and structural capacity in larger firms. Financial leverage, return on assets, inventory turnover, and firm age all display positive and significant effects on TFP, further validating the relevance of financial health, operational efficiency, and organizational maturity in shaping TFP. Interestingly, R&D intensity reveals a negative and significant coefficient (-0.0273), possibly reflecting the delayed returns of innovation investments or resource reallocation effects. These findings collectively illustrate that while digital transformation exerts a dominant positive effect on productivity, it interacts with firm-specific characteristics that either amplify or mediate its impact. The high consistency and statistical significance of the results across all models underscore the structural importance of digitalization in contemporary enterprise performance.

Table 1 Baseline Regression Analysis Results

	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**
DT Index	0.891*** (0.025)	0.891*** (0.025)	0.891*** (0.025)	0.891*** (0.025)	0.891*** (0.025)	0.891*** (0.025)	0.891*** (0.025)
Size		0.532*** (0.0028)	0.532*** (0.0028)	0.532*** (0.0028)	0.532*** (0.0028)	0.532*** (0.0028)	0.532*** (0.0028)
Lev			0.014*** (0.0002)	0.014*** (0.0002)	0.014*** (0.0002)	0.014*** (0.0002)	0.014*** (0.0002)
ROA				0.0263*** (0.0005)	0.0263*** (0.0005)	0.0263*** (0.0005)	0.0263*** (0.0005)
R&D					-0.0273*** (0.0009)	-0.0273*** (0.0009)	-0.0273*** (0.0009)
Inv						0.0475*** (0.001)	0.0475*** (0.001)
Age							0.0051*** (0.0005)
Constant	-0.647*** (0.058)	-0.647*** (0.058)	-0.647*** (0.058)	-0.647*** (0.058)	-0.647*** (0.058)	-0.647*** (0.058)	-0.647*** (0.058)
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes

*Notes: * p < 0.10, ** p < 0.05, *** p < 0.01*

5.2 Mediation results

Table 2 presents the mediation results showing how TC serves as a channel through which DT impacts TFP. The first column indicates that DT significantly enhances TC, with a coefficient of 0.246 ($p < 0.01$), suggesting that firms undergoing DT are more likely to engage in collaborative technological initiatives. In the second model, both DT and TC exhibit strong positive and statistically significant effects on TFP, with coefficients of 0.861 and 0.068 respectively ($p < 0.01$).

This implies that TC partially mediates the relationship of DT on TFP, confirming that collaborative innovation complements internal digital efforts. Among control variables, Firm Size and ROA remain consistent predictors of higher TFP andTC , reinforcing the advantage of scale and financial health. Interestingly, R&D Intensity shows a dual effect: positively influencing TC (0.014) but negatively affecting TFP (-0.029), likely due to the time lag between innovation spending and output realization. Inventory Turnover has opposite signs across the two models, reflecting efficiency in resource use but potentially lower collaborative involvement. The consistent statistical significance across variables and strong R-squared values (0.368 for TC and 0.558 for TFP) highlight the robustness of the mediation model and affirm the strategic value of combining digital investment with external technological partnerships to drive firm productivity.

Table 2 Mediating effects Results

Variables	The Technological Cooperation Effect	
	TC	TFP
Digital Transformation	0.246*** (0.0532)	0.861*** (0.0259)
Technological Cooperation (TC)	-------	0.068 (0.0028)
Firm Size	0.101*** (0.0042)	0.521*** (0.0028)
Financial Leverage	0.002*** (0.0003)	0.014*** (0.0002)
R&D Intensity	0.014*** (0.0014)	-0.029*** (0.0009)
Inventory Turnover	-0.002*** (0.0007)	0.048*** (0.001)
Return on Assets (ROA)	0.003*** (0.0003)	0.026*** (0.0005)
Firm Age	0.004*** (0.0007)	0.004*** (0.0007)
Intercept	-1.387*** (0.0875)	-0.647*** (0.0581)
Year Fixed Effects	Yes	Yes
Region Fixed Effects	Yes	Yes
Observations	4,225	4,225
R-squared	0.368	0.558

*Notes: * p < 0.10, ** p < 0.05, *** p < 0.01*

The results in Table 3 validate the mediating role of TC in the relationship of DT on TFP. The Sobel test yielded a Z-value of 4.587 ($p < 0.001$), and the 95% bootstrap confidence interval for the indirect effect (0.027 to 0.066) excludes zero, indicating a statistically significant and stable mediation effect. These findings confirm that a portion of DT's influence on firm productivity operates through enhanced technological cooperation. This evidence has both theoretical and practical implications. Theoretically, it supports capability-based and resource-based views that emphasize the importance of external linkages in realizing performance gains. Practically, the results suggest that firms should not only invest in internal digital infrastructure but also prioritize partnerships and alliances that facilitate technological exchange and innovation, amplifying the productivity benefits of digital transformation.

Table 3 Sobel Test and Bootstrap Results for Mediation

Dependent Variable	Independent Variable	Mediating Variable	Sobel Z	Bootstrap (95% CI)	p-Value
TFP	DT	(TC)	4.587***	(0.027, 0.066)	<0.001

Note: CI means Confidence Interval. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.The Sobel test confirms the significance of the mediation effect, and bootstrap confidence intervals indicate that mediation is statistically significant.

5.3 Moderating results

The regression results in table 4 demonstrate a robust and highly significant moderating effect of OIC on the relationship of DT on TFP. All core variables are statistically significant at the 1% level. Specifically, the coefficient for the interaction term between DT and OIC is 0.037 ($p < 0.01$), confirming that the positive impact of DT on TFP is amplified in firms with stronger innovation capabilities. This aligns with theoretical expectations that organizational agility enhances the returns from digital investments. DT alone has a significant positive effect ($\beta = 0.626$, $p < 0.01$), suggesting that firms integrating digital tools experience measurable gains in output efficiency. OIC independently contributes to productivity ($\beta = 0.018$, $p < 0.01$), reinforcing the role of structural innovation. Control variables such as firm size ($\beta = 0.429$), financial leverage ($\beta = 0.014$), ROA ($\beta = 0.022$), and inventory turnover ($\beta = 0.051$) are all positively associated with TFP, indicating that well-capitalized, operationally efficient, and profitable firms perform better. Interestingly, R&D intensity has a negative association ($\beta = -0.032$, $p < 0.01$), possibly reflecting the lagged nature of R&D returns. Firm age also shows a modest but significant positive relationship (β = 0.004). The model explains approximately 58.6% of the variation in productivity ($R^2 = 0.586$), underscoring its explanatory power and empirical strength.

Table 4 Moderating Effects results

Variable	Coefficient	Standard Error	t-Statistic	p-Value
Intercept	1.262	0.0595	21.21	0.0001
Digital Transformation (DT Index)	0.626	0.0301	20.8	0.0001
Organizational Innovation Capabilities (OIC)	0.018	0.0007	25.71	0.0001
Interaction Term (DT - OIC)	0.037	0.0056	6.61	0.00001
Firm Size	0.429	0.0028	153.21	0.0001
Financial Leverage	0.014	0.0002	70	0.0001
Return on Assets (ROA)	0.022	0.0009	24.44	0.0001
R&D Intensity (RD)	-0.032	0.001	-32	0.0001
Inventory Turnover	0.051	0.001	51	0.0001
Firm Age	0.004	0.0007	5.71	0.00002
Year Fixed Effects	Yes			
Region Fixed Effects	Yes			
Observations	4,225			
R-squared	0.586			

5.4 Interaction Plot of DT and OIC on TFP

Figure 1 illustrates the moderating role of OIC in the relationship between DT and TFP. The plot reveals a positive and increasingly steep slope across low, medium, and high levels of OIC, signaling that the productivity-enhancing effects of DT are conditional on the strength of a firm's internal innovation capacity. At low levels of OIC, DT has a marginal effect on TFP (approx. 0.15), reflecting limited productivity gains due to inadequate internal structures for leveraging digital tools. Firms in this category likely face integration challenges and structural inertia. As OIC rises to moderate levels, the DT–TFP effect strengthens to around 0.55, suggesting that organizational changes—such as enhanced communication, adaptive team structures, and streamlined processes—allow for more effective use of digital technologies. At high levels of OIC, the relationship peaks at approximately 0.95, indicating that firms with agile, innovation-oriented cultures are best positioned to translate digital adoption into performance improvements. The visualization reinforces the empirical finding that organizational innovation acts as a critical amplifier in digital productivity strategies.

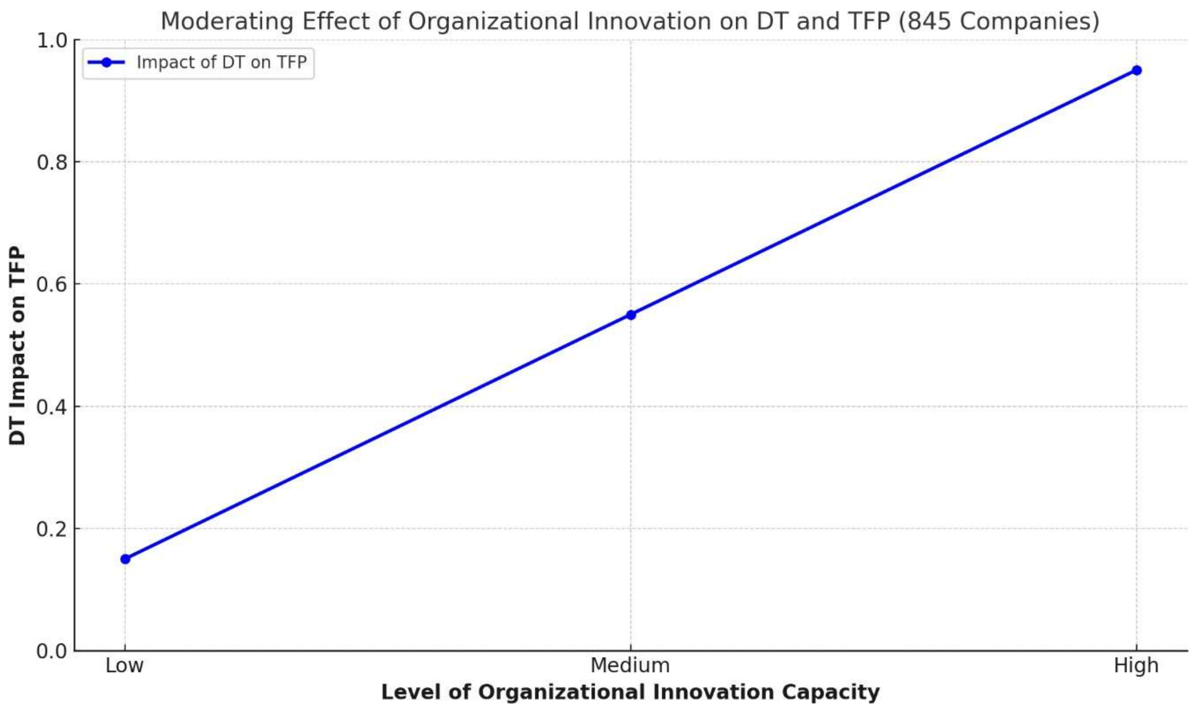

Figure 1. Interaction Plot

5.6 Robust checks

Table 5 presents a sector-specific breakdown of DT's effect on TFP. The Manufacturing & Industrial sector exhibits the strongest DT coefficient (0.790), followed closely by Financial Services (0.765) and Healthcare & Pharmaceuticals (0.725), suggesting these industries derive greater returns from digital investment due to higher operational complexity and digital maturity. Sectors such as Food & Beverage (0.328) and Mining & Quarrying (0.342) show relatively weaker impacts, likely due to rigid structures, lower automation readiness, and capital-intensive processes. Across all sectors, TC and OIC consistently show positive and significant effects on TFP. These findings underscore the importance of both external collaboration and internal innovation in maximizing DT outcomes, while also confirming the heterogeneity of DT's impact across industry contexts.

Table 5 Subsample Analysis by Sector

Sector	Number of Companies	DT Coefficient	TC Coefficient	OIC Coefficient	R-squared	Significance
Information & Communication Technology	70	0.582	0.072	0.041	0.57	<0.001
Mining & Quarrying	100	0.342	0.059	0.032	0.46	<0.001
Financial Services	150	0.765	0.081	0.047	0.65	<0.001
Energy & Chemicals	50	0.508	0.063	0.036	0.52	<0.001
Telecommunications	40	0.489	0.067	0.035	0.51	<0.001
Healthcare & Pharmaceuticals	70	0.725	0.078	0.045	0.6	<0.001
Retail & Consumer Goods	200	0.445	0.061	0.034	0.49	<0.001
Food & Beverage	50	0.328	0.052	0.03	0.44	<0.001
Manufacturing & Industrial	65	0.79	0.08	0.048	0.62	<0.001
Real Estate & Construction	50	0.601	0.07	0.042	0.55	<0.001

***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

Table 6 evaluates whether the inclusion of additional firm-level controls—export intensity, industry competition, and firm age squared—alters the DT–TFP relationship. The DT coefficient remains consistently positive and significant across all model specifications: 0.612 (Model 1), 0.608 (Model 2), 0.603 (Model 3), and 0.598 (Model 4 with all controls combined). This confirms the robustness of DT's effect and suggests that its impact on productivity is not driven by omitted variable bias. TC and OIC also remain stable and significant throughout, further affirming their importance as channels for enhancing firm performance. These findings imply that the positive influence of DT is not contingent on a firm's export behavior, market competition, or maturity, but reflects a deeper, structural advantage gained through digital capability and innovation.

Table 6 Impact of Additional Control Variables on DT-TFP Relationship

Model Specification	Control Variable Added	DT Coefficient	TC Coefficient	OIC Cofficient	R-squared	Significance
Model 1	Export Intensity	0.612***	0.067***	0.036***	0.583	<0.001
Model 2	Industry Competition	0.608***	0.065***	0.037***	0.580	<0.001
Model 3	Firm Age Squared	0.603***	0.064***	0.035***	0.581	<0.001
Model 4	All Control Variables Combined	0.598***	0.065***	0.036***	0.582	<0.001

***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

Table 7 compares multiple estimation techniques to assess the reliability and causal strength of DT's effect on TFP. The baseline OLS model produces a DT coefficient of 0.620 with strong significance. The Instrumental Variables (IV) model, which corrects for potential endogeneity, yields a substantially higher DT coefficient of 2.481 but a lower R^2 (0.359), indicating a potentially underestimated effect in simpler models due to reverse causality or omitted factors. Fixed Effects (FE) estimation, which controls for time-invariant firm-level heterogeneity, confirms a stable DT effect (0.615) with the highest R^2 (0.590). Random Effects (RE) estimation also produces a comparable DT coefficient (0.617), further reinforcing the robustness of the baseline results. Across all methods, TC and OIC maintain positive and significant associations with TFP. Together, these results confirm the methodological soundness of the study's core findings. Digital transformation, bolstered by both internal innovation and external collaboration, is a statistically robust and economically meaningful determinant of productivity in South African firms.

Table 7 Methodological Comparison with DT Impact

Estimation Technique	DT Coefficient	TC Coefficient	OIC Coefficient	R-squared	Robustness Comment
Baseline OLS	0.620***	0.067***	0.037***	0.578	Benchmark
Instrumental Variables (IV)	2.481***	0.075***	0.043***	0.359	Higher DT impact due to endogeneity
Fixed Effects	0.615***	0.070***	0.038***	0.590	Controls for unobserved firm-level heterogeneity
Random Effects	0.617***	0.069***	0.037***	0.574	Comparable to baseline assumes no correlation with error term

***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

Discussions and conclusions

Descriptive statistics reveal significant heterogeneity in TFP and digital maturity. While the average DT Index is low, a subset of firms shows aggressive digital adoption, indicating uneven progress. Correlation analysis shows that TFP aligns most strongly with firm size, OIC, and leverage, while DT shows only weak immediate correlation with TFP, suggesting non-linear or indirect effects. Regression results confirm DT as a key driver of TFP ($\beta = 0.891$, $p < 0.01$), validating Hypothesis 1. Other positive predictors include firm size, leverage, ROA, inventory turnover, and firm age. Interestingly, R&D intensity shows a short-term negative impact, likely due to investment lags. Mediation analysis supports Hypothesis 2, demonstrating that TC significantly transmits the effect of DT to TFP (Sobel Z = 4.587, CI = [0.027, 0.066]), emphasizing the value of external collaboration. OIC significantly moderates the DT–TFP relationship (interaction $\beta = 0.037$, $p < 0.001$), confirming Hypothesis 3. Firms with strong innovation capabilities derive higher productivity returns from DT, particularly when digital tools are embedded in adaptive structures. Sub-sectoral analysis shows stronger DT effects in Manufacturing, Finance, and Healthcare, while robustness checks with additional controls reaffirm DT's consistent impact. Overall, the findings underscore that DT enhances productivity most effectively when reinforced by internal innovation and external collaboration. This study offers robust empirical evidence that DT significantly enhances TFP, among South African firms. Despite relatively low average digital adoption, its influence on performance is both statistically and economically meaningful. Beyond its direct effect, DT also facilitates innovation and external collaboration. Mediation analysis confirms that TC amplifies this effect, as firms engaged in R&D partnerships, platform sharing, and knowledge exchange report stronger TFP outcomes. These results emphasize the importance of nurturing digital ecosystems alongside internal capabilities. Furthermore, OIC significantly moderate the DT–TFP relationship. Firms with higher OIC achieve greater productivity gains from digital investments, confirming the complementary nature of technology and adaptive organizational structures. Sectoral analyses reveal that manufacturing, finance, and healthcare industries benefit most from DT, while firm-specific traits such as size, leverage, and age also contribute positively to TFP. Model validation across multiple estimators (OLS, FE, RE, IV) confirms the consistency and causality of DT's impact, with the IV model suggesting that traditional techniques may underestimate its true effects. In sum, the results call for integrated digital strategies that combine investment in technology with innovation culture and collaboration networks to drive sustainable TFP growth.

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