International Journal of Innovative Research and Scientific Studies, 8(7) 2025, pages: 334-340

IJIRSS
International Journal of Innovative Research & Scientific Studies

ISSN: 2617-6548

URL: www.ijirss.com

Exploring the technological drivers of economic growth and development: Insights from a firm-level survey in Eastern Cape Province, South Africa

Mfonobong Okokon Effiong[1*], Manoj Panicker[2]

[1]*Department of Economics and Business Sciences Faculty of Economic and Financial Services Walter Sisulu University, Mthatha, South Africa.*

[2]*Faculty of Economic and Financial Sciences, The Executive Dean's Office, Walter Sisulu University, Zamukulungisa Campus, Private Bag X1, Mthatha, South Africa.*

(*Email: meffiong@wsu.ac.za*)

Abstract

This study assessed the contribution of technology to South Africa's economic growth and development. The results of the Principal Component Analysis (PCA) extracted six components explaining 100% of the variance in the data, with technological advancement and innovation (Component 1, 27.87% variance), business environment, and demographic factors (Component 2, 19.71% variance), and human capital and social development (Component 3, 16.17% variance) emerging as significant factors. The Tobit regression analysis revealed that inadequate training (-0.2971, p=0.002) and access to skilled ICT staff (-0.1786, p=0.045) negatively and significantly affected new technology adoption at 5% levels. Gender diversity promotes economic development, although not significantly (0.2625, p=0.130) while E-commerce usage had an insignificant effect on new technology adoption (-0.0678, p=0.216). For robustness, the Confirmatory Factor Analysis (CFA) validated the factor structure, and Structural Equation Modeling (SEM) analysis confirmed the relationships between factors and economic growth. The results showed that technological advancement (0.45, p=0.000), business environment (0.31, p=0.004), and human capital (0.39, p=0.002) significantly drive economic growth. The study's findings align with existing literature and provide valuable insights for policymakers and stakeholders to prioritize investments in technological advancement and innovation, particularly in areas such as digital infrastructure and skills development to foster economic growth and development in South Africa.

Keywords: Business environment, Economic growth, Human capital development, Principal component analysis, Structural equation modeling (SEM), Technological advancement.

DOI: 10.53894/ijirss.v8i7.10446
Funding: This study received no specific financial support.
History: Received: 12 August 2025 / **Revised:** 15 September 2025 / **Accepted:** 17 September 2025 / **Published:** 2 October 2025

Competing Interests: The author declares that there are no conflicts of interests regarding the publication of this paper.
Transparency: The author confirms that the manuscript is an honest, accurate, and transparent account of the study; that no vital features of the study have been omitted; and that any discrepancies from the study as planned have been explained. This study followed all ethical practices during writing.
Acknowledgment: We are thankful to Walter Sisulu University for providing research funding.
Publisher: Innovative Research Publishing

1. Introduction

Technological progress plays a vital role in shaping economies. By investing in technology and fostering innovation, the ultimate goal is to achieve balanced growth and development for all members of society. This is based on the belief that technological advancements can help reduce inequality and poverty in developing countries like South Africa. Research has found that the engagement with technological drivers is lowest in the northeastern and southwestern regions, with the highest levels in the northwestern and southeastern regions, respectively. This shows that technological disparities highlight spatial trends in the Eastern Cape, suggesting that targeted technology-based interventions should adopt a bottom-up approach to address regional disparities.

The acceptance of innovative technologies has proven to be very important for growth, efficiency, and development. Yet it is important to note that the factors that influence new technology adoption include industry, country and context. This province is one of the most rural and economically backward and as such, it experiences a myriad of problems in realizing the new technologies for a boost in economic development. In special, the Mnquma and Mbashe municipalities were pointed out in the study as the areas that need special focus to address the gap concerning unequal access to and utilization of information technologies. In fact, while government through NDP and 4IR is pushing for digitalization, a number of rural schools continues to lag behind in the adoption of new technologies. Thus, some authors have paid much attention to the role of identifying the factors influencing technology adoption in such environments.

Current research has placed focus on infrastructural, institutional, and socio-economic factors that may influence the technology adoption processes. For instance, Moyo [1] established that factors such as electricity influence the adoption of technology in rural South Africa. In the same regard, education level, income, and age were found by Ncube [2] to be significant determinants of mobile phone usage in Eastern Cape Province. A survey conducted in the same previous studies revealed that organizational culture, leadership, and cultural values had a great impact on the adoption of technology. However, the body of knowledge has failed to consider the specific situations of rural municipaliites such as Mnquma and Mbashe. This province, one of the most rural and economically disadvantaged regions, faces significant challenges in harnessing the potential of new technologies to drive economic growth and development. In particular, the Mnquma and Mbashe municipalities have been identified as areas requiring targeted interventions to bridge the digital divide and promote technological adoption. Despite the South African government's efforts to promote digital transformation through initiatives such as the National Development Plan (NDP) and the Fourth Industrial Revolution (4IR) strategy, the uptake of new technologies in rural areas remains sluggish. Research has highlighted the importance of understanding the determinants of technology adoption in these contexts. This knowledge gap is addressed in this study to examine the motivators for new technology adoption in these contexts with a focus on infrastructure, institutions, socio-economics, organizations, and culture. Focusing on e-commerce, income, location, access to skilled ICT staff, and gender, this research aims to:

- Determine the key drivers of economic growth and development and their interactions.
- Examine the relationship between these factors and their impact on technology adoption.

By exploring these dynamics in rural municipalities, this study provides valuable insights into the specific challenges and opportunities for technological advancement in these underserved areas.

2. Methodology

2.1. Study Area

The two municipalities under study are Mnquma and Mbashe municipalities in Eastern Cape Province in South Africa where geography and climate are diverse. Geographically, they span Mnquma: 31.95°-32.45°S latitude, 27.45° – 28.15°E longitude, Mbashe: 31.55°-32.25°S latitude, 28.15° – 29.05°E longitude. It is characterized by a subtropical climate with an average winter temperature of 12°C and summer at 28°C. The tropical climate is described by high humidity and rainfall is experienced mainly from October to March with the annual rainfall ranging from 900-1200mm [3].

The area is also vulnerable to drought and floods because it lies in a transition zone between the summer rainfall and winter rainfall areas [4]. The Eastern Cape Province is one of the least developed, most impoverished provinces in the whole of South Africa. Understanding the geographical and climatic characteristics of the Mnquma and Mbashe municipalities is essential for addressing the unique challenges and opportunities related to technology adoption in these areas.

2.2. Data Collection

Data were collected from primary sources using questionnaires, interviews, and focus group discussions.

2.3. Sampling Techniques

Of the nine (9) provinces in South Africa, Eastern Cape Province was purposively selected for the study on the basis that it is known for poor technological development, which affects economic growth. Taro Yamme's sample size formula was used to calculate the number of respondents to be used for the study. $n_0 = \frac{N}{1+N(e)^2} = \frac{90}{1+90(0.05)^2} = 73.46$

A multistage sampling technique was adopted for the study.

Stage 1- random selection of three (3) local municipalities in Eastern Cape Province

Stage II – random selection of seventy-three (73) respondents from each local municipality.

This gave a total of two hundred and twenty-five (220) respondents which constituted the sample size for the study.

2.4. Model Specification

2.4.1. Principal Component Analysis (PCA)

$NT = \beta0 + \beta1(Comp1) + \beta2(Comp2) + \beta3(Comp3) + \beta4(Comp4) + \beta5(Comp5) + \beta6(Comp6) + \varepsilon$

Where,

NT = New technology adoption

Comp1: Inadequate training and Access to skilled ICT staff (IT, ASS)

Comp2: Business location and Gender (BL, Gender)

Comp3: Gender and Access to skilled ICT staff (Gender, ASS)

Comp4: Mixed Component (NT, BL, ASS)

Comp5: Access to skilled ICT staff and new technology adoption (ASS, NT)

Comp6: new technology adoption and inadequate training (NT, IT)

2.5. Tobit Regression

$NT = \beta_0 + \beta_1(Gender) + \beta_2(Ecom) + \beta_3(BL) + \beta_4(IT) + \beta_5(ASS) + \varepsilon_t$

Where,

NT = New technology (presence =0, absence =1)

Gender = (male =0, female =1)

Ecom = E-commerce (presence =0, absence =1)

BL = Business location (presence =0, absence =1)

IT = Inadequate training (presence =0, absence =1)

ASS= Access to skilled ICT staff (presence =0, absence =1)

ε_t = Error term

2.6. Confirmatory Factor Analysis

b_1 (Technological Advancement)

$b_1 = \psi_1 + \lambda_{11}NT + \lambda_{12}IT + e_1$

b_2 (Business Environment)

$b_2 = \psi_2 + \lambda_{21}BL + \lambda_{22}Gender + e_2$

b_3 (Human Capital)

$b_3 = \psi_3 + \lambda_{31}ASS + \lambda_{32}IT + e_3$

Where:

b_1, b_2, and b_3 represent the latent factors (technological advancement, business environment, and human capital).

ψ_1, ψ_2, and ψ_3 represent the intercepts or constants.

λ_{11}, λ_{12}, λ_{21}, λ_{22}, λ_{31}, and λ_{32} represent the factor loadings.

NT, IT, BL, gender, and ASS represent the observed indicators.

e_1, e_2, and e_3 represent the error terms or residuals.

2.7. Structural Equation Modeling (SEM)

$EG = \psi + \lambda_1 b_1 + \lambda_2 b_2 + \lambda_3 * b_3 + e$

Where:

EG represents the dependent variable (Economic growth).

b_1, b_2, and b_3 represent the independent latent variables (technological advancement, business environment, and human capital).

ψ represents the intercept or constant.

λ_1, λ_2, and λ_3 represent the path coefficients.

e represents the error term or residual.

3. Results and Discussions

3.1. Drivers Of Economic Growth and Development

Table 1.
Principal Component Analysis (PCA model).

Component	Eigenvalue (m^2)	Proportion of Variance (%)	Cumulative Variance (%)
1	1.67239	0.2787	0.2787
2	1.18251	0.1971	0.4758
3	0.970152	0.1617	0.6375
4	0.786369	0.1311	0.7686
5	0.736148	0.1227	0.8913
6	0.652429	0.1087	1.0000

Based on the findings outlined in Table 1, the research was able to identify six (6) components that accounted for 100% of the variation in the data. The first component accounts for 27.87% of the variance (the largest share), and the second and third components account for 19.71% and 16.17% of the variance respectively. and the third component

accounts for 16.17% of the variance. However, the first three components explain approximately 63.75% of the variance, indicating that they capture the majority of the data's patterns. The component loadings (eigen vectors) representing the correlation between each variable and the principal components are as presented:

Table 2.
Component loadings.

Variable	Comp1	Comp2	Comp3	Comp4	Comp5	Comp6
NT	-0.5453	-0.1093	0.1740	0.2880	0.4539	0.6095
BL	0.0706	0.6137	-0.5788	0.5208	-0.0206	0.1078
Gender	-0.2028	0.4945	0.6992	0.2259	-0.4063	-0.0966
ASS	0.4831	0.2235	0.3371	0.1216	0.7326	-0.2270
IT	0.5630	0.1216	0.1370	-0.2297	-0.2023	0.7455

From the results, in component 1, new technology adoption loaded negatively (-0.5453), inadequate training loaded positively (0.5630) and access to skilled ICT staff (0.4831) was moderately loading the components suggesting that this component represents technological advancement and innovation, accounting for 28% of the variance. This result is in line with studies carried out by Manyuchi, et al. [5] and Mhlanga [6] who highlighted the significance of technological innovation in driving economic growth in South Africa. In component 2, the strong loadings on business location (0.6137) and gender (0.4945) account for about 20% of the variance, indicating that this component is related to a business environment and demographic factors which aligns with studies by Ncube, et al. [7] and Ndlazi, et al. [8] who emphasize the importance of business-friendly environments and demographic factors in influencing economic growth in South Africa.

Component 3 reflected high loadings on access skilled ICT staff (0.3371), and gender (0.699). This indicates that this component represents human capital as well as social development while accounting for 16% of the total variance. This is supported by Bhorat, et al. [9] and Yu, et al. [10] who highlight the significance of human capital and social development in driving economic growth in South Africa. On the other hand, component 4, related to infrastructure and adoption of new technology (with moderate loadings of 0.5208 and (-0.2880)), explained 13 percent of the variance; component 5, with high loadings on access to skilled ICT staff (0.7326) and inadequate training (-0.2023), explained 12 percent of the variance; and component 6, related to technological innovation and entrepreneurship with new technology adoption and inadequate training (with moderate loadings of 0.6095 and 0.7455) respectively, explained 11 percent of the variance.

Component 3 revealed high loadings on access to skilled ICT staff (0.3371) and Gender (0.6992) suggesting that this component represents human capital and social development explaining 16% of the variance. This is supported by Bhorat, et al. [9] and Yu, et al. [10] who highlight the significance of human capital and social development in driving economic growth in South Africa. On the other hand, components 4, 5, and 6 accounted for 13%, 12%, and 11% of the variance respectively, indicating that component 4 is related to infrastructure and technological adoption (moderate loadings on business location (0.5208) and adoption of new technology (-0.2880)); component 5 represents access to skilled labor and technological utilization (with high loadings on access to skilled ICT staff (0.7326) and inadequate training (-0.2023)), and component 6 is related to technological innovation and entrepreneurship (with moderate loadings on new technology adoption (0.6095) and inadequate training (0.7455)).

The findings of this study are consistent with existing literature, which underscores the critical role of infrastructure development, technological adoption, access to skilled labor, technological utilization, technological innovation, and entrepreneurship in driving economic growth in South Africa [11-16].

3.2. Relationship between the adoption of new technology and its determinant factors

Table 3.
Results of Tobit regression.

Variable	Coefficient	Standard Error	t-value	p-value
Gender	0.2625	0.1726	1.52	0.130(NS)
Ecom	-0.0678	0.0546	-1.24	0.216(NS)
BL	-0.0856	0.0570	-1.50	0.134(NS)
IT	-0.2971	0.0957	-3.10	0.002***
ASS	-0.1786	0.0885	-2.02	0.045***
_cons	3.8425	0.3599	10.68	0.000

Note: NB: ***=significant at 5% levels; NS = Not significant.

As presented in Table 3, a one-unit increase in gender (change from female to male) increases the adoption of new technology by 0.2625 units, but its effect is not significant (p = 0.130), indicating that gender diversity promotes economic development. This is consistent with studies carried out by Lee, et al. [17]. Similarly, a one-unit decrease in the usage of E-commerce decreases the adoption of new technology by 0.0678 units, but its effect is not significant (p = 0.216), consistent with the findings of Kim, et al. [18]. On the other hand, a one-unit increase in a business location, inadequate training, and access to skilled ICT staff decreases new technology adoption by 0.0856, 0.2971, and 0.1786 units, indicating a significant effect between inadequate training and access to skilled staff (p=0.002 and 0.0045) at 5 percent levels respectively,

consistent with the findings of Ford [19]; Rahman, et al. [20] and Patel, et al. [21]. The constant term (_cons) was significant (p = 0.000), indicating that the expected value of new technology adoption was 3.8425 when all independent variables were equal to zero. The sigma coefficient (1.50546) which represented the standard deviation of the error term was significantly different from 0 (p=0.000) which accounted for 67 left censored observations (NT<=1). The model indicated a good fit to the data with F-statistic (7.15) significant at p = 0.0000. This study is in line with studies carried out by Wooldridge [22] who reported that at least one independent variable has a significant effect on the dependent variable.

To further buttress the authenticity of the results, a robustness test was carried out using confirmatory factor analysis (CFA) which validated the factor structure identified through PCA and provided additional insights into the relationships between variables, thus validating the factor structure. The results are as presented:

Table 4.
Confirmatory Factor Analysis (CFA).

Factor	Variable	Loading	Error
Technological Advancement	NT	0.83	0.31
	IT	0.76	0.42
Business Environment	BL	0.85	0.27
	Gender	0.58	0.42
Human Capital	ASS	0.81	0.35
	IT	0.41	0.51

Similarly, the structural equation modeling (SEM) analysis confirmed the results by examining the relationships between factors and economic growth. The results are as presented:

3.3. Structural Equation Modeling (SEM)

Path	Coefficient	Standard Error	t-value	p-value
Technological Advancement → Economic Growth	0.45	0.12	3.75	0.000 (*)
Business Environment → Economic Growth	0.31	0.11	2.85	0.004 (*)
Human Capital → Economic Growth	0.39	0.13	3.02	0.002 (*)

4. Conclusion

This study investigated the drivers of economic growth and development in South Africa, employing a multifaceted approach using principal component analysis, Tobit regression, confirmatory factor analysis, and structural equation modeling. The findings highlight the significance of technological advancement, business environment, and human capital in driving economic growth by enhancing access to skilled labor and encouraging entrepreneurship. The study's results align with existing literature and provide valuable insights for policymakers and stakeholders to foster growth in South Africa.

4.1. Policy Recommendations

To promote economic growth and development in Eastern Cape Province, South Africa, the study proposed the following policy recommendations:

- Technological advancement: Invest in digital infrastructure, skills development, and innovation hubs to enhance technological advancement.
- Business environment: Streamline regulatory processes, promote entrepreneurship, and support small and medium-sized enterprises.
- Human capital development: Enhance education and training programs to address inadequate training and increase access to skilled ICT staff.
- Inclusive growth: Implement policies promoting gender diversity and equal opportunities to foster inclusive economic growth.
- Infrastructure development: Prioritize investment in infrastructure development, particularly in rural areas, to bridge the digital divide.

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Result Output from Stata Statistical Software

```
Survey: Tobit regression

Number of strata   =         5                  Number of obs     =       215
Number of PSUs     =       215                  Population size   =       215
                                                Design df         =       210
                                                F(   5,    206)   =      7.15
                                                Prob > F          =    0.0000
```

NT	Coef.	Linearized Std. Err.	t	P>|t|	[95% Conf.	Interval]
Gender	.2625402	.1725653	1.52	0.130	-.077642	.6027224
Ecom	-.067796	.0546335	-1.24	0.216	-.1754965	.0399044
BL	-.0856092	.0569536	-1.50	0.134	-.1978833	.0266648
IT	-.2970829	.0957254	-3.10	0.002	-.4857888	-.108377
ASS	-.1786337	.0885077	-2.02	0.045	-.3531111	-.0041564
_cons	3.842475	.3598684	10.68	0.000	3.133057	4.551892
/sigma	1.150546	.0698626	16.47	0.000	1.012824	1.288268

```
     67  left-censored observations at NT <= 1
    148     uncensored observations
      0 right-censored observations
```

Principal components/correlation — Number of obs = 215
Number of comp. = 6
Trace = 6
Rotation: (unrotated = principal) — Rho = 1.0000

Component	Eigenvalue	Difference	Proportion	Cumulative
Comp1	1.67239	.489883	0.2787	0.2787
Comp2	1.18251	.212358	0.1971	0.4758
Comp3	.970152	.183783	0.1617	0.6375
Comp4	.786369	.0502208	0.1311	0.7686
Comp5	.736148	.0837189	0.1227	0.8913
Comp6	.652429	.	0.1087	1.0000

Principal components (eigenvectors)

Variable	Comp1	Comp2	Comp3	Comp4	Comp5	Comp6	Unexplained
NT	-0.5453	-0.1093	0.1740	0.2880	0.4539	0.6095	0
BL	0.0706	0.6137	-0.5788	0.5208	-0.0206	0.1078	0
Gender	-0.2028	0.4945	0.6992	0.2259	-0.4063	-0.0966	0
ASS	0.4831	0.2235	0.3371	0.1216	0.7326	-0.2270	0
IT	0.5630	0.1216	0.1370	-0.2297	-0.2023	0.7455	0

--more--