THE RELATIONSHIP BETWEEN INTERNATIONALISATION AND FIRM PERFORMANCE IN SOUTH AFRICA: THE MODERATING ROLE OF SLACK RESOURCES

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ABSTRACT

Firm internationalisation has emerged as a crucial growth strategy in an increasingly globalised world. As firms strive to expand their operations beyond their home countries, they face several opportunities as well as challenges. While the effects of internationalisation on firm performance have been extensively studied, conclusive findings remain elusive due to a variety of factors. In particular, its specific implication for South African firms remains under-studied. Furthermore, there is a significant gap in the literature regarding how slack resources moderate this relationship. This study aims to analyse the relationship between the degree of internationalisation and firm performance among South African firms. It also examines how absorbed and unabsorbed slack resources influence this relationship. Employing a regression model, this study uses panel data from internationalised South African firms listed on the Johannesburg Stock Exchange between 2010 and 2019, providing a rich long-term dataset for analysis. The results indicate an insignificant relationship between the degree of internationalisation and firm performance, suggesting that increased internationalisation does not impact financial performance. The results also indicate that increasing absorbed and unabsorbed slack resources have an insignificant moderating effect on this relationship. This study contributes to the existing body of knowledge by providing insight into how firm internationalisation relates to performance, while considering the moderating effects of firm-specific factors. Additionally, it enhances the understanding of firm internationalisation in the emerging market context of South Africa. These findings offer practical implications for South African firms aiming to expand internationally, highlighting the importance of strategic resource allocation during internationalisation.
Keywords: absorbed, emerging market, firm performance, internationalisation, slack resources, unabsorbed

CHAPTER 1: INTRODUCTION

1.1 BACKGROUND

Firm internationalisation has emerged as one of the pre-eminent strategies in the world today (Bianchi, 2009, 2014; Fernández-Olmos et al., 2016). It involves the expansion of a firm's operations beyond its national borders, through exporting, franchising, and more direct forms such as foreign direct investment (FDI). The growth of internationalisation as a strategy has been supported by various global developments such as globalisation, lower transaction costs, and greater demand for foreign goods and services. Historically, this has seen North American and European firms expand their areas of operation to other developed and emerging markets. Recently, emerging market firms have adopted this strategy in search of growth, but not to the same scale as their more developed counterparts (Fasanya et al., 2022; Ochieng et al., 2024; Yahaya, 2018). Emerging market internationalisation, however, tends to be dominated by Chinese and South American firms, with African firms lagging far behind (UNCTAD, 2023b). Still, literature does show that more and more African firms are adopting internationalisation as a growth strategy in light of the aforementioned developments (Ashley et al., 2022; Fasanya et al., 2022; Ochieng et al., 2024).

An increasing number of South African companies are adopting internationalisation as a strategy for their growth (Ashley et al., 2022). The outcomes of their internationalisation, however, have varied. Some companies, such as SABMiller (Boso et al., 2019), have been successful, while others, such as Woolworths and Metro Cash & Carry, have failed (Gumbi, 2017). These varying outcomes are underlined by the benefits and challenges associated with firm internationalisation. Firms face challenges such as liability of foreignness, increased coordination costs, foreign currency fluctuations, and unfamiliar markets when internationalising their operations (Singh & Ahwireng-Obeng, 2013; Zainudin et al., 2021). These challenges that firms, including South African firms, have faced have adversely impacted firm performance during internationalisation. In contrast, internationalisation has also been associated with benefits such as access to new growth markets, economies of scale, and diversification (Capar, 2022; Thomas, 2006; Zainudin et al., 2021), which improve firm performance. The extent to which the aforementioned factors impact firm performance will depend on the extent to which firms are internationalised or exposed to their internationalised operations. Research on how these factors interplay to impact firm performance has

provided conflicting results, and thus, no firm conclusion has been reached on how the degree of internationalisation relates to firm performance (Capar, 2022; Capar & Kotabe, 2003; Hitt et al., 1997).

1.2 SIGNIFICANCE

Several authors have attempted to understand South African firm internationalisation (Grosse et al., 2023; Verhoef, 2011; White & Van Dongen, 2017). These studies have covered various facets of firm internationalisation, from entry strategies (White et al., 2019; White & Van Dongen, 2017) and market selection (Ashley et al., 2022) to de-internationalisation (Musanhi, 2022) where firms cease their international operations. These evidence a need to understand South African firm internationalisation processes and outcomes. Given the firm roots that firm internationalisation has in South African business (Verhoef, 2011), unpacking its processes has been an important step in facilitating further developments in the literature's understanding of South African firm growth. Several authors have highlighted the challenges and opportunities that South African firms face when internationalising (Adeleye et al., 2016; Boso et al., 2019; Gumbi, 2017), with some pointing to resource advantages and cultural challenges that South African firms have faced during internationalisation (Adeleye et al., 2016). These would result in the differential performance of South African firms during their internationalisation. However, very little literature has empirically tested whether internationalisation has improved firms' performance in South Africa (Singh & Ahwireng-Obeng, 2013). This is despite internationalisation's wide adoption as a growth strategy amongst South African firms.

The consensus around how firm internationalisation relates to firm performance has, however, been lacking (Capar, 2022; Capar & Kotabe, 2003; Likitwongkajon & Vithessonthi, 2023). As highlighted by several authors, there have been several conflicting results as to how firm internationalisation relates to performance. Undoubtedly, there would be even less consensus in the largely under-researched South African context. Researchers have suggested that differences in firms' operating contexts have contributed to the conflicting studies around how the degree of internationalisation relates to firm performance (Singh & Ahwireng-Obeng, 2013; Thomas, 2006). Different operating contexts result in the development of different firm attributes and resources which shape their strategic decisions (Dunning, 1979). The understanding around this relationship in a South African context represents a

knowledge gap that needs to be filled. In addition to gaps around how the degree of internationalisation relates to firm performance and the specific resources that shape this relationship is also an under-researched area in an emerging market context (Bıçakcıoğlu-Peynirci & Morgan, 2022; Luu et al., 2023; Nguyen et al., 2019).

It is within this context that this study finds its purpose. This study analyses the relationship between the degree of internationalisation and the performance of South African firms as well as the moderating effects of slack resources, defined as the surplus between a firm's resources and its required resources (Lohrke et al., 2004). There are several reasons why this is important: firstly, as highlighted, internationalisation has emerged as one of the most widely used strategic tools by firms today (Fernández-Olmos et al., 2016). Its significance and implications for firm performance are important for a better understanding of the drivers of firms' performance and how to improve such performance. By expanding their operations beyond home country borders, firms gain access to new resources and markets, which affect firm performance. As previously highlighted, the current literature provides conflicting results as to the nature of the relationship between the degree of internationalisation and firm performance (Capar & Kotabe, 2003; Likitwongkajon & Vithessonthi, 2023; Singh & Ahwireng-Obeng, 2013). These results range from positive linear relationships (Zainudin et al., 2021), to curvilinear (Capar & Kotabe, 2003; Zainudin et al., 2021) to insignificant relationships (Kumar, 1986; Morck & Yeung, 1991) underlined by differences in contexts and methodologies (Pangarkar, 2008; Thomas, 2006). As such, while widely studied, no general rule can be applied to the relationship between the degree of internationalisation and firm performance. This is particularly the case for emerging market firms, with comparatively little research analysing the relationship in emerging markets (Bıçakcıoğlu-Peynirci & Morgan, 2022; Luu et al., 2023), particularly sub-Saharan Africa (Singh & Ahwireng-Obeng, 2013; Yahaya, 2018).

Secondly, the moderating impact of slack resources on the relationship between the degree of internationalisation and firm performance. Slack resources play an important role in firms' ability to operate and compete in dynamic environments. While, by definition, they are not required for normal operations, they can serve as a buffer against environmental shocks. This is important in the context of firm internationalisation, where environments are generally more uncertain due to

unfamiliarity with foreign operating environments. While various theories around internationalisation advocate that a firm's competitive advantage is attributed to the possession of specific resources (Zahra, 2021; Zahra et al., 2006), there is relatively little research on which particular resources shape firm internationalisation and how they can moderate the relationship between the degree of internationalisation and firm performance (Bıçakcıoğlu-Peynirci & Morgan, 2022; Luu et al., 2023; Nguyen et al., 2019).

1.3 RESEARCH QUESTION

This study aims to analyse different facets of firm internationalisation in an emerging market context, South Africa. By placing a focus on this widely used strategy for firm growth, this study aims to better understand not only whether or not internationalisation improves firm performance but also how certain firm-specific intervening variables can moderate this relationship. Achieving the research aims will assist firms in better contextualising firm internationalisation and its role in achieving strategic objectives, be it financial or otherwise. It will also assist firms in arranging their strategic slack resources most efficiently to encourage better firm performance when internationalising. This study, therefore, seeks to answer the following research questions:

1. How does the degree of internationalisation relate to the performance of South African firms?
2. How do absorbed slack resources moderate the relationship between the degree of internationalisation and firm performance of South African firms?
3. How do unabsorbed slack resources moderate the relationship between the degree of internationalisation and firm performance of South African firms?

1.4 CONTRIBUTION

This study intends to make two significant contributions. Firstly, it addresses a notable gap in research by analysing the relationship between the degree of internationalisation and firm performance in a South African context. While previous studies such as, Singh & Ahwireng-Obeng (2013), have explored this relationship, they excluded the mining sector and firms with lower degrees of internationalisation. By incorporating all industries in its sample, this study aims to provide a more generalised understanding of how the extent of internationalisation impacts South African firms.

Furthermore, while several authors have studied South African firm internationalisation (Verhoef, 2011; White et al., 2019; White & Van Dongen, 2017), none have, except the aforementioned study by Singh & Ahwireng-Obeng (2013), quantitively analysed the relationship over time. This study, therefore, adds depth to the discourse by shedding light on the relationship between the degree of internationalisation and firm performance of South African firms.

Secondly, this study contributes to the ongoing debate regarding the role of slack resources in shaping firm performance. The literature points to conflicting perspectives on how slack resources – both absorbed and unabsorbed - impact firm performance (Bıçakcıoğlu-Peynirci & Morgan, 2022; Luu et al., 2023; Nguyen et al., 2019). Strategic implications arise from the deployment of these resources, which serve as buffers against uncertainty or lead to inefficiencies. This study focuses on how slack resources interact with firms' internationalisation strategies to improve or impede their performance in dynamic and uncertain environments. By analysing specific resources categories, it aims to clarify their significance, offering valuable insight into resource allocation strategies.

This study intends to meet two interrelated objectives. Firstly, it examines the relationship between the degree of internationalisation and firm performance. Secondly, it investigates the extent to which slack resources, both absorbed and unabsorbed, moderate this relationship. To achieve these research objectives, this study will analyse panel data on internationalised South African firms listed on the Johannesburg Stock Exchange for the period 2010 to 2019. This analysis will enable an understanding of how the degree of internationalisation affects firm performance, as well as the moderating roles of slack resources on this relationship.

1.5 ROADMAP

The study is organised as follows: Chapter 2 reviews literature on internationalisation and firm performance, presenting key arguments from various studies and developing the central arguments of the study. Chapter 3 details the quantitative methods employed, and the data analysis used in the research. Chapter 4 presents the study's results, offering a detailed description of the findings obtained from the data analysis. Chapter 5 discusses these findings by interpreting the results in the context of existing literature. Chapter 6 concludes with recommendations for future research on the

relationship between the degree of internationalisation and firm performance. These suggestions point to areas that are under-researched, and which could provide important details that may aid in furthering the understanding of how the degree of internationalisation relates to firm performance.

CHAPTER 2: LITERATURE REVIEW

This literature review is structured as follows: Section 2.1 reviews the literature that highlights the significance of home country context and firm-specific resources in influencing firm internationalisation. In addition, Sections 2.2 and 2.3 explore the literature on emerging market internationalisation, with 2.3 concentrating specifically on South Africa. Section 2.4 evaluates the literature regarding the relationship between the degree of internationalisation and firm performance. Lastly, Section 2.5 formulates its key arguments concerning the relationship between the degree of internationalisation and firm performance, as well as how slack resources shape this relationship.

2.1 HISTORY OF FIRM INTERNATIONALISATION AND SELECT THEORIES

Since the 1960s, researchers have studied how firms grow through internationalisation (Cox, 1997; Dunning, 1979), which refers to the process of increasing involvement in international operations or markets (De et al., 2016; Eduardsen & Marinova, 2020; Morais & Ferreira, 2020). Researchers in global business studies consider internationalisation essential for firms to remain competitive in business (Koetter, 2019). Today, it is widely regarded as a significant growth strategy (Fernández-Olmos et al., 2016) encompassing various forms such as exporting, franchising and foreign direct investment (FDI) (Fernández-Olmos et al., 2016; González-Márquez et al., 2023; Ochieng et al., 2024). These modes of internationalisation have evolved over time in line with global business developments. Concurrent with this evolution the body of knowledge and understanding of internationalisation has grown from its nascent focus on developed market manufacturing firms to a wider scope of firms ranging from service firms (Capar & Kotabe, 2003; Xiao et al., 2019) to start-ups today (Ochieng et al., 2024).

Literature on the history of firm internationalisation identifies two distinct periods: the pre-World War II (WWII) era, dominated by British firms, and the period post-WW II which, until the 1970s, was largely dominated by American firms (Dunning, 1979). The latter period saw American industrial firms engage in substantial FDI into Europe and Latin America (Cox, 1997). The dominance of American firms during the early post-WWII era was supported by a focus on capital-intensive industries and leveraged advantages in technology and low communication costs to coordinate overseas expansions (Cox, 1997; Wilkins, 2008). It was during this period that American firms

also began to favour FDI as a means of internationalisation as opposed to export with constraints around foreign currency shortages in Europe encouraging American companies to establish subsidiaries in Europe (Cox, 1997). This period coincided with most of Europe's decline in internationalisation output as it grappled with rebuilding from the damage resulting from WWII. Britain at the same time, was focusing most of its internationalisation efforts on Commonwealth countries (Cox, 1997). It was only from the 1960s that European firms began to increasingly internationalise in order to combat the influence of American firms, though this was mainly focussed on trade between themselves.

The post-WWII era saw not only attempts to conceptualise firm internationalisation but also an examination of the internationalising firms themselves, along with their motivations. This period led to the development of seminal theories such the Uppsala model of firm internationalisation (Johanson & Vahlne, 1977) based on studies of North American and European firms, and Dunning's eclectic theory (Dunning, 1979). According to the latter theory, three factors shape a firm's internationalisation behaviour – ownership advantages, location advantages and internalisation advantages (Dunning, 1979). These factors drive the entry mode that firms adopt when internationalising to drive the best performance. Ownership advantages include both firm-specific resource advantages, as well as those located external to the firm (Dunning, 1988). These external advantages include access to a favourable business environment, functioning institutions, legal frameworks, and good governance, within the country in which a firm operates. This theory emphasises the importance of the home country context in shaping firm internationalisation performance. Furthermore, the external environment variable of the ownership advantage variable in the theory is linked to institutional theory which suggests that institutions within which firms operate shape their actions (Willmott, 2015). This point may be particularly relevant for emerging market firms which often contend with institutional voids that arise from their home countries (Fasanya et al., 2022; Ochieng et al., 2024; Xiao et al., 2019). As such, this theory establishes the theoretical logic of studying firm internationalisation in different contexts in order to better understand how they impact the firm.

The early research also integrated existing theories into the internationalisation literature, with several researchers applying the resource-based view (RBV) of firms to explain internationalisation (Teece et al., 1997). According to the RBV, firms leverage

certain tangible and intangible resources to gain a competitive advantage in internationalisation. This firm-level perspective sought to explain that variations in internationalisation among firms were due to their possession of unique and inimitable resources and capabilities. These resources can be tangible or intangible and include plants, intellectual property and human resources. Researchers have further extended the RBV to include not only the possession of resources but also firms' ability to exploit them in changing environments, termed 'dynamic capabilities,' to explain firm competitive advantage (Teece et al., 1997). This approach emphasises not only the significance of possessing resources for competitive advantage but also how these resources are integrated with strategic decisions within the dynamic environment in which a firm operates.

Dunning's eclectic theory overlaps with the RBV in certain areas, as both attempt to explain how a firm's operating environment and strategic decisions interact with its accessible resources. However, they attempt to do so by studying different phenomena. The eclectic theory focuses on determinants of firm internationalisation while the RBV focuses on the resources that shape a firm's competitive advantage. Despite their differing unit of analysis, they provide a framework for analysing firm internationalisation. Both highlight the importance of specific firm-level resource advantages as well as home-country resource advantages in generating a competitiveness that shapes firm internationalisation.

Research has primarily focused on firms from developed markets, leaving a gap concerning developing markets (Bianchi, 2009, 2014; Bianchi et al., 2018; Fasanya et al., 2022; Roberto et al., 2014). This gap exists because developing market firms operate in environments that influence their internationalisation behaviours in ways that differ from their developed market counterparts (Bianchi et al., 2018; Fasanya et al., 2022; Gaur & Kumar, 2010; Ramamurti, 2012; Wu & Vahlne, 2022). Growing FDI from developing markets drives economic growth and offers opportunities for further insights into developing market firms and their unique strategies (Fasanya et al., 2022; Tang & Buckley, 2022).

2.2 INTERNATIONALISATION IN A DEVELOPING MARKET CONTEXT

Several authors have emphasised the critical influence of a firm's home-country environment on its internationalisation strategies and outcomes (Bianchi, 2014; Fan et

al., 2022; Xiao et al., 2019). Dunning's eclectic theory provides a framework to understand these dynamics, positing that internationalisation decisions are influenced in part by conditions prevalent in a firm's home country context (Dunning, 1979). Developing markets, despite their growing prominence in international business, often face challenges such as weak institutions, corruption and lower technological advancement compared to developed-market counterparts (Bianchi et al., 2018; Gaur & Kumar, 2010; Ramamurti, 2012). These factors reduce their competitiveness in the context of internationalisation (Cuervo-Cazurra et al., 2018; Igwe et al., 2022). To mitigate these constraints, firms operating within developing markets often adopt a resource-seeking or explorative approach to internationalisation (Iwaloye et al., 2022; Verhoef, 2011; Wu et al., 2022). This approach entails seeking out foreign resources to complement existing domestic capabilities (Buckley et al., 2016), thereby enabling them to fill gaps in their competitive resource bases and position themselves more effectively in global markets.

In navigating these challenges, firms from developing markets also often encounter late-mover disadvantages in foreign markets, which impose additional barriers to their internationalisation efforts (Luu et al., 2023). Nevertheless, some have countered these disadvantages by engaging in strategic asset acquisitions, as exemplified by Asian firms acquiring advanced technologies in developed markets to help them grow their local markets (Du et al., 2020; Ramamurti, 2012). These strategic asset-seeking investments are not stand-alone initiatives but rather form part of a broader framework whereby these newer resources complement existing resource endowments to improve competitiveness (Casson & Wadeson, 2018). Dunning's theory further elaborates on this link between location and ownership advantages during internationalisation, suggesting that these factors inform the strategic decisions that firms make when internationalising (Dunning, 1979). Combining these elements and how they impact firms' internationalisation is, thus, key in enabling a deeper understanding of the internationalisation of developing market firms.

Home-country environments, of course, are not homogenous across developing markets and instead exhibit considerable variation in their stages of economic and institutional development. This diversity influences the internationalisation strategies and competitiveness of firms originating from emerging markets. For instance, Asian countries demonstrate more advanced stages of economic development compared to

their African and South American counterparts (Malanski & Póvoa, 2021). Consequently, they have achieved higher levels of internationalisation than other developing markets (UNCTAD, 2023a). This is notable as several Chinese and Indian firms, for example, operate vast operations across the rest of the world. Some firms from developing markets leverage their unique home-country characteristics to compete effectively in both developing and developed markets (Du et al., 2020; Koetter, 2019). For example, access to inexpensive yet highly skilled labour has enabled Indian firms to partner with their foreign counterparts in their internationalisation efforts (Gaur & Kumar, 2010), sometimes even allowing Indian firms to compete in developed markets (Ramamurti, 2012). Chinese firms benefit from strong institutional support through government policies that encourage internationalisation (Du et al., 2020; Vahlne & Wu, 2022), while Korean firms use their affordable domestic human resources to lower labour costs in foreign markets (Gaur & Kumar, 2010). These examples serve to underline the observations of Casson & Wadeson (2018) that the different operating environments of emerging market firms do allow them to develop advantages, similar to their developed market counterparts.

When analysed through the lens of the eclectic theory and RBV, it is evident that firm internationalisation is shaped by the advantages and disadvantages present in firms' home countries as well as how they manage these resources to develop and maintain competitive advantage. Therefore, despite the multitude of challenges faced by developing markets, including institutional hurdles, it is crucial to recognise that idiosyncratic factors within a country can influence firm internationalisation in different ways, both positively and negatively (Ndofirepi, 2024).

2.3 INTERNATIONALISATION IN A SOUTH AFRICAN CONTEXT

The African continent trails behind other continents in terms of its level of development, with research indicating that the home country environments of African developing market firms are less supportive of their internationalisation efforts compared to those from other continents (Acquaah et al., 2013). Contributing factors include a lack of skills within the labour force (Mawejje & Okumu, 2018), inadequate enforcement of property rights (Fasanya et al., 2022), policy uncertainty (Luiz & Stephan, 2012) and corruption (Warf, 2017). These challenges, while not unique to Africa, appear to have a more significant impact on its internationalisation activities. In 2023, Africa recorded the lowest FDI across all continents, amounting to just $6 billion out of $459 billion across

all developing markets (UNCTAD, 2023a). While there has been a growing number of internationalising African firms, African firm internationalisation remains largely poorly understood (Fasanya et al., 2022).

The literature on African firm internationalisation is relatively sparse compared to other continents, with most research focusing on South African firms (Boso et al., 2019). According to White & Van Dongen (2017), the internationalisation of South African firms is considerably more advanced than that of their sub-Saharan African counterparts. Focusing on the ownership factors within Dunning's eclectic theory, there appears to be a strong institutional driver for this state of affairs. South Africa's higher education institutions are amongst the best on the continent, contributing to a skilled formal sector (Boso et al., 2019; Cloete et al., 2015), which is important for internationalisation (Bianchi et al., 2018). The availability of local specialised skills is one of the drivers of early innovation in South Africa's mining sector (Kaplan, 2011) which is the most internationalised sector in South Africa. South Africa also has the largest stock exchange in Africa and has the most developed capital markets (Soumaré et al., 2021), enhancing firms' ability to raise funds. Firm internationalisation is identified as a resource-intensive strategy requiring significant financial resources (Bianchi et al., 2018; Buckley et al., 2016; Tseng et al., 2007), highlighting the significance of accessing funding through efficient capital markets as a key home-country advantage. Additionally, the South African economy's strong interaction with the global economy (Golub, 2000; Moyo, 2020) offers more opportunities for internationalisation, such as export possibilities. These are supported by liberalisation policies that place the private sector at the centre of the South African economy's growth (Golub, 2000). These home-country advantages have significantly contributed to South Africa becoming one of the leading internationalisers in Africa (Adeleye et al., 2016), contributing $2.5 billion of the entire $6 billion foreign direct investment out of Africa in 2022 (UNCTAD, 2023b). In this way, the home country environment of South African firms can contribute to the development of competitive advantages (Grosse et al., 2023) which aid them in internationalisation.

While these factors have contributed positively to South African firm internationalisation, there is evidence of institutional weaknesses that shape South African firm internationalisation. The South African government's lack of support for mining firms has spurred them to search for export opportunities (Kaplan, 2011). South

Africa also has relatively higher labour costs per unit when compared to other emerging markets (Golub, 2000). This, exacerbated by South Africa's rigid labour laws, has the effect of reducing South African firms' export competitiveness (Golub, 2000). In addition, while largely world-class, South Africa has experienced significant challenges in its combined logistics sectors which have served to limit some of its export opportunities (Department of Transport, 2023). These logistics challenges are estimated to have cost the South African economy at least $26.7bn since 2010 (Department of Transport, 2023). These challenges are in addition to loadshedding, state capture and the service delivery protests which have served to undermine business confidence and overall weaken South Africa's institutional environment. These factors serve to underline the rather complex home country environment in which South African firms operate and may serve as strong push factors driving South African firms' internationalisation, while at the same time potentially limiting its effectiveness. Despite these common issues faced by developing markets, such as corruption and policy uncertainty, South Africa remains the most industrialised nation in Africa (Moyo, 2020).

While there is evidence of South Africa's home country environment facilitating internationalisation, the literature on how South African firms have fared when operating internationally is largely vague, with little empirical support. While firms such as Sasol, Mondi, and SABMiller (Adeleye et al., 2016; Boso et al., 2019; Verhoef, 2011) are said to have achieved strong performance in their internationalised operations, firms such as Nando's and Woolworths experienced challenges (Boso et al., 2019). From a firm-level perspective, authors attribute their success to strong managerial capabilities (Grosse et al., 2023; Verhoef, 2011), experience with institutional voids (Adeleye et al., 2016) and international collaboration between South African firms, coined 'SA Inc' (White & Van Dongen, 2017). The role of strong management teams in driving firm performance is explained by the Upper Echelon theory, which suggests that a firm's characteristics and performance are shaped by the attributes of its top management (Bekos & Chari, 2023). While South Africa is not noted for a particularly well-skilled labour force overall, it does have highly educated managers, which has facilitated superior internationalisation performance (Verhoef, 2011). Several South African firms' management characteristics are attributed to South African firms' propensity to internationalise to Western Europe and North America, particularly in the

early stage of internationalisation. This is attributed to Verhoef (2011) to the Commonwealth effect, which is the propensity for current and former members of the British Commonwealth to have high degrees of intra-Commonwealth trade and investment among themselves (Lundan & Jones, 2001). These countries tend to have similarities in language, institutional structures and business practices, which reduce the psychic distance between markets (Lundan & Jones, 2001). This has the effect of reducing transaction costs for internationalising firms to develop and leverage networks, which reduces the psychic distance between markets (Verhoef, 2011).

Several authors have also highlighted emerging market firms' development of management abilities that allow them to overcome institutional voids in foreign markets (Adeleye et al., 2016; Boso et al., 2019; Fasanya et al., 2022). These observations have been doubly applied to South African firms, particularly in their internationalisation into Africa (Adeleye et al., 2016; White & Van Dongen, 2017) though they are often applied as anecdotal observations and not the result of empirical analysis. Admittedly, however, these add to the body of research on South African firm internationalisation and find support in Teece et al. (1997)'s conceptualisation of dynamic firm capabilities. Besada (2005) attributes South African firms' dominance in some African countries, despite institutional voids, to their managerial capabilities and home-grown advantages such as capital and technology. Their competitive advantage stretches across sectors such as banking, telecommunications and retail (Luiz & Stephan, 2012; Moyo, 2020; White & Van Dongen, 2017).

In contrast to the aforementioned firm-specific advantages that aid South African firms in their internationalisation, there is evidence of some of their challenges. Boso et al. (2019) suggest that a lack of understanding of the Nigerian regulatory environment hurt MTN, while internal organisational and strategic issues hurt Nando's and Woolworths. These intangible knowledge-based disadvantages serve to limit the extent to which these firms are able to compete in an internationalised environment. White & Van Dongen (2017) have suggested that knowledge-sharing amongst some South African retailers has assisted them in overcoming some of these disadvantages. This study, however, has not found any literature empirically analysing the extent to which South African firms' possession of specific resources impacts their internationalisation performance.

While the impact of home country and firm-specific resources is well understood in a South African context, the impact of these factors on financial performance is less clear. Though the relationship between the degree of internationalisation and firm performance is widely studied globally (Capar & Kotabe, 2003; Hitt et al., 1997; Likitwongkajon & Vithessonthi, 2023), it has scarcely been examined in a South African context. This study finds only one analysis of the relationship in a South African context. The following section will review the literature on the relationship between the degree of internationalisation and firm performance.

2.4 INTERNATIONALISATION AND FIRM PERFORMANCE

The relationship between the degree of internationalisation and firm performance has been extensively studied (Capar & Kotabe, 2003; Hitt et al., 1997; Leung & Sharma, 2021; Likitwongkajon & Vithessonthi, 2023; Yahaya, 2018; Zainudin et al., 2021). These studies primarily investigate how internationalisation impacts firm performance through longitudinal[1] studies. The studies find that various challenges shape the nature of the relationship, including the liability of foreignness (Capar & Kotabe, 2003), inexperience (Thomas, 2006), high transaction costs (Fernández-Olmos et al., 2016) and coordination costs (Pangarkar, 2008) due to the increased complexity of increasingly internationalised operations. At the same time, authors associate this relationship with benefits such as economies of scale (Capar, 2022), the acquisition of dynamic capabilities (Fernández-Olmos et al., 2016) and access to resources (Bıçakcıoğlu-Peynirci & Morgan, 2022). The various contexts, industries of analysis and methodologies, together with inherent challenges and benefits of internationalisation, have, as such, contributed to conflicting results when analysing the relationship between the degree of internationalisation and firm performance. Indeed, several authors have pointed to the conflicting results produced by studies analysing the relationship (Capar, 2022; Likitwongkajon & Vithessonthi, 2023; Singh & Ahwireng-Obeng, 2013).

These studies have produced different shapes to describe the relationship between the degree of internationalisation and firm performance, be it positive relationships or negative relationships. Some researchers have found more complex shapes to describe the relationship. For example, Capar & Kotabe (2003) and Xiao et al. (2019)

[1] Longitudinal studies observe repeated observations of the same variables over a period of time.

found a curvilinear relationship between the degree of internationalisation and firm performance of German and Chinese services firms, respectively. Similar findings reason that firms will experience declining internationalisation performance due to increased costs of internationalisation at lower levels of internationalisation (Hitt et al., 1997; Thomas, 2006). Over time and as they increase their degree of internationalisation, however, firms will develop sufficient knowledge and capabilities to overcome the challenges of internationalisation and improve their performance. Typically, most of these studies define the degree of internationalisation as the extent to which sales are derived from foreign countries, i.e. foreign sales as a proportion of total sales, though some studies also include scale, i.e. number of countries, when defining the degree of internationalisation. This finding has some theoretical support in the Uppsala model of internationalisation proposed by Johanson & Vahlne (1977) which posits that firms internationalise incrementally to reduce cost and risk but will experience increased benefits of internationalisation as they increase the scale and scope of internationalisation. As an extension of this relationship, Contractor et al. (2003) found a sigmoid-type relationship. Advocates for this shaped relationship find that while firms experience declining performance at the early stages of internationalisation, they can improve firm performance as the degree of internationalisation increases. However, at a certain point performance declines due to the increased complexity associated with internationalisation. Additional shapes include W-shapes and inverted U-shapes (Fernández-Olmos et al., 2016), each suggesting that the relationship between internationalisation and firm performance is not consistently positive or negative but changes over time based on a variety of factors similar in nature to the aforementioned shapes. These results underline the various interactions between different variables that may shape the relationship between the degree of internationalisation and firm performance (Pap & Change, 2008).

As such, the relationship between the degree of internationalisation and firm performance can be considered to be shaped by the specific context in which an internationalising firm operates. While still acknowledging this, however, a meta-analysis by Pap & Change (2008) found that the relationship between the degree of internationalisation and firm performance is generally positive. This finding makes logical sense as Singh & Ahwireng-Obeng (2013) note that internationalisation would

not remain a widely used strategy for growth if it was generally found to negatively relate to firm performance, regardless of context.

Despite its dominance in African internationalisation, there have been very few studies carried out on the relationship between the degree of internationalisation and the performance of South African firms. The only longitudinal study examining the relationship between internationalisation and firm performance in a South African context was conducted by Singh & Ahwireng-Obeng (2013). This study found a sigmoid relationship between internationalisation and firm performance. In line with this relationship, South African firms experience an immediate benefit from the early stages of internationalisation. These are attributed to low competition in the neighbouring countries into which South African firms internationalise. They then experience increased transaction costs as they increase their internationalisation before recovering at high degrees of internationalisation. In addition, the study excluded firms where less than 10% of their revenue was derived from foreign operations. This exclusion is rather important in the context of internationalisation. The widely used Uppsala model of internationalisation (Johanson & Vahlne, 1977) suggests that firms internationalise incrementally in a staged model, increasing their degree of internationalisation as they gain more knowledge of foreign operations (Johanson & Vahlne, 1977). Excluding firms with lower degrees of internationalisation has the potential to exclude an important category of firms which are at the early stages of their internationalisation and might even exclude firms that are more established but for strategic reasons have opted to maintain their degree of internationalisation at less than 10%. Therefore, the negative impact of internationalisation at the early, riskier stages of internationalisation may be missing from the model, which would explain why that study found an immediate benefit for internationalising firms.

In addition, the observation about internationalisation into neighbouring countries with low competition driving internationalisation performance states that South African firms tend to internationalise into regional blocks, i.e. SADC countries before expanding outward. However, that has not necessarily been found to be the case for South African firms. While Ochieng et al. (2024) and Singh & Ahwireng-Obeng (2013) have observed that African firms tend to internationalise into regional blocks, Verhoef (2011) and Klein & Wöcke (2007) have highlighted the fact that South African firms exhibit different internationalisation behaviours that have seen them internationalise into Western

markets as well (Adeleye et al., 2016; Boso et al., 2019; van Wyk & Luiz, 2024). This is especially the case for early internationalisation, which focused on mining and industrial firms which were amongst the first internationalising firms. It is also important to note that mining firms are excluded from Singh & Ahwireng-Obeng (2013)'s analysis, thereby excluding one of the biggest drivers of South African firms' internationalisation. As highlighted before, such methodological differences also contribute to conflicting results on the relationship between the degree of internationalisation and firm performance (Capar & Kotabe, 2003). As such, it would be possible to draw different insights on South African firm internationalisation by extending the sample to include all internationalised firms regardless of their extent of internationalisation and industry, to enhance the analysis and obtain a better understanding of how the variables under study change over time (Singer & Willett, 2003).

2.5 HYPOTHESIS DEVELOPMENT

A review of the literature suggests that South African firms can leverage their experience, and a stronger resource base, to engage in internationalisation (Adeleye et al., 2016; White et al., 2019; White & Van Dongen, 2017). Additionally, the Commonwealth effect[2] has encouraged South African firms to internationalise into parts of Europe and Africa which has aided them in navigating challenges in these foreign markets. However, at a lower degree of internationalisation, South African firms can be expected to incur lower performance as they become more familiar with foreign markets. Theoretically, this is to be expected especially as they internationalise into geographically distant nations, even if this is moderated by intervening network advantages. South African firms can leverage their strong governance from South African firms which also helps to reduce transaction costs and the overall costs of doing business (Munjal et al., 2022) which are some of the costs associated with internationalisation (Bianchi, 2009, 2014).

Drawing from the literature on factors that enhance the strong performance of South African firms during internationalising, this study posits the following hypothesis:

H1: There is a positive relationship between the degree of internationalisation and the performance of South African firms.

[2] The propensity for countries in the Commonwealth to have high levels of intra-Commonwealth trade (Lundan & Jones, 2001)

While not an extensively studied field within internationalisation literature, several authors have also examined the specific moderating effects of slack resources (Bıçakcıoğlu-Peynirci & Morgan, 2022; Luu et al., 2023; Nguyen et al., 2019). Studies on how slack resources, defined as the surplus between a firm's resources and its required resources (Daniel et al., 2004), impact on firm performance have produced conflicting theoretical perspectives. Drawing on the RBV, some authors argue that slack resources are a resource from which firms can draw competitive advantage, while others argue it is a sign of inefficiency (Daniel et al., 2004; Luu et al., 2023) linked to poor firm performance. These conflicting views spur a need to investigate how slack resources relate to firm performance, particularly, in an internationalised context.

Researchers distinguish between two types of slack resources: absorbed and unabsorbed slack resources (Luu et al., 2023). Absorbed slack resources refer to illiquid resources owned by a firm which have a specific purpose and cannot be easily reallocated, making it difficult to deploy them to specific activities (Luu et al., 2023; Sun et al., 2022). The most absorbed slack resource within a firm is human capital (Bıçakcıoğlu-Peynirci & Morgan, 2022). While the RBV suggests that resources can be competitive advantages, 'slack as a sign of inefficiency' proponents argue that absorbed slack resources are inflexible and disadvantageous, particularly in complex international environments. Research indicates that absorbed slack resources may have a negative moderating effect on the relationship between the degree of internationalisation and firm performance (Bıçakcıoğlu-Peynirci & Morgan, 2022)

Bıçakcıoğlu-Peynirci & Morgan (2022) support this view, showing a negative moderating impact of absorbed slack resources on the relationship between the degree of internationalisation and firm performance. Conversely, Luu et al. (2023), argue that absorbed slack resources can positively moderate this relationship, emphasising the role of dynamic managerial capabilities. South African firms, with their experience in challenging developing market environments (Boso et al., 2019; Verhoef, 2011; White & Van Dongen, 2017), may leverage absorbed slack resources for international success (Cuervo-Cazurra et al., 2018), aligning with the RBV's focus on dynamic management capabilities as an important enabler of this relationship. This perspective emphasises management's ability to leverage its available resources in a dynamic environment to gain a competitive advantage.

H2: Absorbed slack resources have a positive moderating effect on the relationship between the degree of internationalisation and firm performance of South African firms.

Unabsorbed slack resources are highly liquid assets which have not been absorbed into the firm (Argilés-Bosch et al., 2016; Luu et al., 2023), and which support firm decision-making and strategy implementation (Sun et al., 2022). The most significant unabsorbed slack resource is cash (Bıçakcıoğlu-Peynirci & Morgan, 2022). Positive moderating effects of unabsorbed slack resources on the relationship between the degree of internationalisation and firm performance have been observed, attributed to their buffering role during international expansion (Argilés-Bosch et al., 2016; Bıçakcıoğlu-Peynirci & Morgan, 2022). These resources help firms absorb shocks and manage costs linked to liability for foreignness (Luu et al., 2023) as they internationalise. Drawing on the RBV and the flexibility of unabsorbed slack resources, this study proposes the following hypothesis:

H3: Unabsorbed slack resources have a positive moderating effect on the relationship between the degree of internationalisation and the performance of South African firms.

CHAPTER 3: RESEARCH DESIGN AND METHODOLOGY

This study examines the relationship between the degree of internationalisation and firm performance, as well as the moderating effects of slack resources, both absorbed and unabsorbed. Similar to most studies analysing this relationship, this study uses panel data, with 10 years being the period of analysis. The methodology section begins with an overview of the research design, followed by a description of the dataset, variables analysed, and quantitative regression models used. This will be followed by a discussion of the results, the conclusions drawn from the analysis and the limitations of the study.

3.1 RESEARCH DESIGN

The research design outlines the approach to studying a research problem (Indu & Vidhukumar, 2020). It involves the processes and methods used to collect and analyse data, serving as a blueprint for addressing the hypotheses. The research design is informed by the research problem as it must be tailored to ensure that it addresses the research problem most effectively. The research questions addressed in the study are structured as follows: What is the relationship between the degree of internationalisation and the performance of South African firms? How do absorbed slack resources moderate the relationship between the degree of internationalisation and firm performance of South African firms? How do absorbed slack resources moderate the relationship between the degree of internationalisation and firm performance of South African firms?

Sreejesh et al. (2014) identify three major research designs: experimental, descriptive, and causal. This study adopts a descriptive research design to analyse the relationship between the degree of firm internationalisation and firm performance. Descriptive research designs are the most widely used design in the field of internationalisation and firm performance, as they seek to describe the relationship between internationalisation and firm performance.

3.2 RESEARCH METHODOLOGY

There are three approaches to research methodology, namely: quantitative, qualitative, and mixed methods. The best method for a given study is informed by the set of assumptions of the study, how it is to be understood, and the purpose of the research (Creswell & Creswell, 2018). This study aims to understand the causal relationship

between the degree of internationalisation and firm performance over time, as well as the moderating effect of slack resources. The variables of interest in the study are expressed numerically and rely on secondary data, primarily published annual financial statements. Similar to most studies analysing the relationship between the degree of internationalisation and firm performance, this relationship is analysed quantitatively. Most studies analysing the relationship between the degree of internationalisation and firm performance use regression analysis of panel data over time (Capar & Kotabe, 2003; Hitt et al., 1997; Xiao et al., 2019). This allows for an understanding of how internationalisation interacts with firm performance across firms over a long period. The use of a generally accepted methodology ensures the replicability of the study as well as its external validity (Campbell et al., 1963).

The literature review was used to outline the hypotheses to be tested in this study. This study posits three hypotheses:

H1: There is a positive relationship between the degree of internationalisation and firm performance of South African firms.

H2: Absorbed slack resources have a positive moderating effect on the relationship between the degree of internationalisation and firm performance of South African firms.

H3: Unabsorbed slack resources have a positive moderating effect on the relationship between the degree of internationalisation and firm performance of South African firms.

3.3 DATA

This study focuses on South African firms that have internationalised their operations through franchising, exporting, or FDI, amongst other modes of internationalisation. Similar to the approach adopted by Capar (2022) only firms that have been internationalised for at least three years are included in the sample. The data set analysed includes internationalised operations listed on the JSE between 2010 and 2019, a period of 10 years. The analysis period is limited to 2019 to avoid the impact of the COVID-19 pandemic, which significantly influenced the financial performance of many companies around the world due to restrictions on most firms' ability to trade. Publicly available financial data from the JSE ensures that results are comparable and externally valid. The data collection process of this study differs from the only similar study performed in a South African context. Firstly, this study does not exclude any particular industry. Singh & Ahwireng-Obeng (2013)'s study on South African firms excluded the Basic Materials sector from their sample, which makes up 21% of this study's sample. These firms were excluded on the basis that their operations are almost entirely internationalised, i.e. close to 100% degree of internationalisation, and that their performance would be unevenly impacted by commodity prices and macroeconomic cycles. Analysis of the collected data for this study, however, revealed that the average degree of internationalisation[3] ('DOI') amongst firms in the Basic Materials sector was only 53.8%; therefore, these firms are not almost exclusively internationalised as the aforementioned authors reasoned. Therefore, the sector is included in the study in order to improve the generalisability of the study. Further details of the actual data collected are provided in the ***Dataset Description*** section of the study. In addition, this study uses control variables to account for other factors that may impact firm performance. The study by Singh & Ahwireng-Obeng (2013) also, excluded firms with foreign operations making up less than 10% of earnings. Most studies analysing the relationship between the degree of internationalisation and firm performance do not have this limitation (Likitwongkajon & Vithessonthi, 2023; Xiao et al., 2019; Zainudin et al., 2021). In line with most literature analysing the relationship between the degree of internationalisation and firm performance, this study does not include such a limitation.

[3] Degree of internationalisation (DOI) is computed as foreign turnover divided by total turnover

Another way that this study differs from the study by Singh & Ahwireng-Obeng (2013) is in the data sources used. This study uses the Bloomberg database to collect firm data on internationalisation, performance, and slack resources. This approach, of using databases for data collection, is similar to most studies analysing the relationship between the degree of internationalisation and firm performance and allows for the collection of large amounts of data for analysis (Capar, 2022; Likitwongkajon & Vithessonthi, 2023; Thomas, 2006).

Table 1 provides a summary of the variables included in this study, along with their definitions, measurement methods, and sources of data.

3.3.1 DATASET DESCRIPTION

The final dataset consists of 411 firm-year observations across 74 firms. All sectors of the JSE are represented in the data, with the largest portion falling into the Industrials sector at 25.8% of the total population. The number of available firms is limited by the amount of disclosure provided in the firm's individual financial statements disclosures as some firms with internationalised operations, such as the Clicks Group, do not disclose the extent of their geographic internationalisation. Such firms often do not disclose information on the degree of their internationalisation if they are below a certain level due to materiality. The aforementioned Clicks Group annual financial statements state that their internationalised operations make up less than 10% of their revenue and therefore, are not material enough to disclose. The threshold used by firms for materiality in their disclosure differs from firm to firm, as the financial reporting standards do not mandate a threshold. The Industrials, Basic Materials, and Consumer Discretionary sectors are the most represented in the data. This is likely because they are amongst the earliest internationalisers in South Africa. South Africa's mining firms were among the first to internationalise, with most of South Africa's minerals being exported to Europe and Britain in particular. This is also a possible reason why the sector has the highest average degree of internationalisation across all sectors, at 53.8%. The Industrials sector also features as the most represented, together with Basic Materials, as the development of these two sectors in South Africa was closely connected (Verhoef, 2011). The isolation and concentration of South Africa's industrial sectors during apartheid allowed firms to build up managerial capacity that enabled them to internationalise into foreign markets (Verhoef, 2011). The remainder of the sectors contribute less than 32% to the study. This is in line with expectations as these

sectors, such as Telecommunications tend to internationalise via higher risk modes such as FDI as opposed to lower risk modes such as export and licensing, which are observed in the more highly represented sectors such as Basic Materials. The demographics of the data are detailed in Table 1 below. Also, refer to Figure 1 for the data collection process.

TABLE 1: Final dataset

Sector	**Average DOI**	**No. of firms**	**% of total**	**No. of firm-years**
Basic Materials	53.8%	14	21.4%	88
Consumer Discretionary	13.0%	9	20.7%	85
Consumer Staples	17.5%	9	13.9%	57
Energy	21.2%	1	0.7%	3
Financials	2.8%	1	0.7%	3
Healthcare	38.1%	4	3.4%	14
Industrials	33.6%	21	25.8%	106
Technology	31.8%	6	9.0%	37
Telecommunications	30.3%	3	4.1%	17
Total	**31.2%**	**74**	**100.0%**	**411**

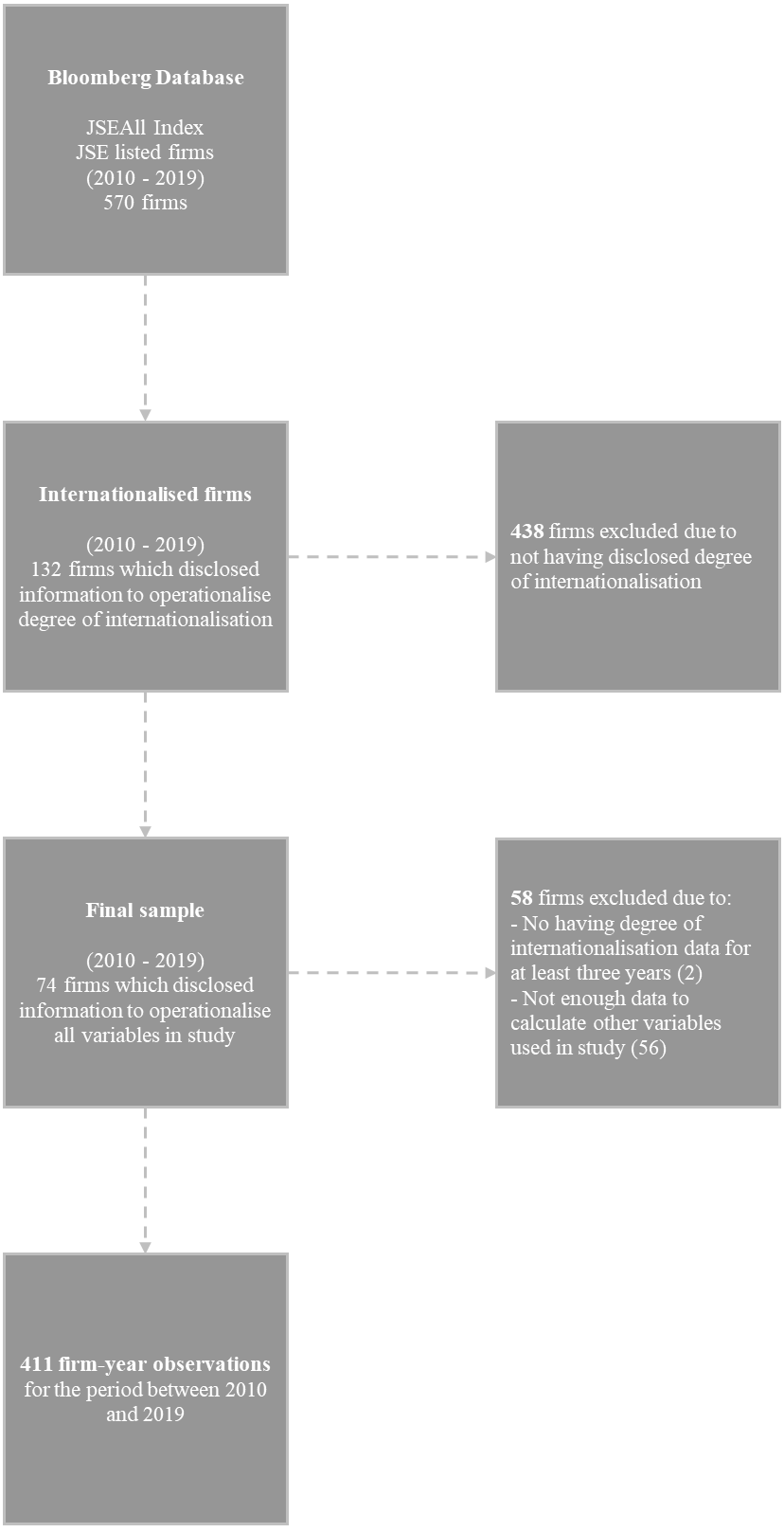

Figure 1: Dataset collection process (adapted from Bıçakcıoğlu-Peynirci & Morgan, 2022)

3.3.2 VARIABLES OF INTEREST

This study uses return on sales (ROS) to measure firm performance. It is a widely cited measure used to measure firm performance in studies analysing the relationship between the degree of internationalisation and firm performance (Capar, 2022; Capar & Kotabe, 2003; Fernández-Olmos et al., 2016). This study operationalises return on sales as operating profit before interest and tax divided by total sales. Using ROS as the dependent variable also enhances its comparability with other studies analysing the relationship between the degree of internationalisation and firm performance, as it is a widely used metric to measure performance in similar studies (Fernández-Olmos et al., 2016; Thomas, 2006). An alternative measure, Return on Assets (ROA), was also considered; however, Hitt et al. (1997) found that the relationship between internationalisation and performance yielded similar results when measured using ROA as it did with ROS. This study, therefore, maintains ROS as its dependent variable.

Most studies analysing the relationship between the degree of internationalisation and firm performance operationalise the degree of internationalisation as foreign sales as a proportion of total sales (FSTS) (Likitwongkajon & Vithessonthi, 2023). Although other measures (including the proportion of foreign assets to total assets) have been used in previous studies (Hitt et al., 1997; Likitwongkajon & Vithessonthi, 2023; Pangarkar, 2008), the former is preferred as the data used to calculate the measure is more widely available, being based on the geographical segmental disclosures that firms make in their annual financial statements. JSE-listed firms disclose their financial information as they are required to do so under IFRS, which firms apply for the preparation of the annual financial statements in conformity with the JSE listing requirements. While some authors have used foreign assets over total assets (Likitwongkajon & Vithessonthi, 2023), arguing that proportionate foreign sales do not adequately reflect the intention of the internationalising firm, disclosures on foreign assets are less common and that measures would overlook forms of internationalisation that do not require the deployment of foreign assets, such as exporting and licensing. Fernández-Olmos et al. (2016) advocate for measuring both foreign sales and market scope, supported by the work of Pangarkar (2008), who notes the performance implications of firms operating in multiple jurisdictions. However, this comprehensive data is not always available as firm disclosures on geographical sales

rarely disclose sales per country and often rather focus on regional disclosures, where they provide more detail. Given data constraints, this study uses the proportion of foreign sales to total sales to measure the degree of internationalisation.

Drawing on similar studies examining the relationship between the degree of internationalisation and firm performance, this study adopts two control variables in its estimation models that may have an impact on firm performance: firm size and liquidity. Larger firms have a larger resource pool to draw on (Pangarkar, 2008) and also benefit from economies of scale (Singh & Ahwireng-Obeng, 2013). For this reason, firm size is expected to have an impact on firm performance; therefore, this study controls for its effects. This approach is adopted in several studies analysing the relationship between the degree of internationalisation and firm performance (Bıçakcıoğlu-Peynirci & Morgan, 2022; Capar, 2022; Singh & Ahwireng-Obeng, 2013). Firm size is operationalised as the natural logarithm of total assets as published in the annual financial statements of each firm. Similar to the analysis by Bıçakcıoğlu-Peynirci & Morgan (2022), this study also controls for the impact of liquidity on firm performance, measured as cash and cash equivalents divided by total assets.

Absorbed slack is operationalised as employee costs divided by total sales, capturing the primary slack resource within a firm's operations. Alternative measures for absorbed slack resources have been used; however, several of them do not explicitly operationalise employee costs, which is the most absorbed slack resource a firm can possess (Bıçakcıoğlu-Peynirci & Morgan, 2022). Luu et al. (2023) proposed a measure incorporating working capital, less budgeted salary expense, and is divided by total sales. However, this measure was not available based on Bloomberg, as South African firms do not typically publish budgeted expenses in their annual financial statements. Unabsorbed slack is operationalised as the current ratio. The current ratio operationalises a firm's liquidity ratio – current assets as a proportion of current liabilities - which reflects a ratio of readily deployable assets to short-term liabilities. Using this ratio is expected to reflect the amount of resources that firms possess that are ready to be deployed in order to support decision-making. It is one of the most widely used methods for operationalising unabsorbed slack resources (Lee & Wu, 2016; Lohrke et al., 2004; Tabesh et al., 2019).

To test the interaction effects under hypotheses 2 and 3, this study creates moderating variables. Moderation or interaction effects are assessed where there is an expectation

that a moderator alters the direction of the relationship between a dependent and an independent variable (Memon et al., 2019). In this study, two moderating variables are identified to test the moderating effects identified in hypotheses 2 and 3:

- MOD1 = degree of internationalisation * absorbed slack resources
- MOD2 = degree of internationalisation * unabsorbed slack resources

These moderating variables allow for an extension of the understanding of existing relationships to different contexts by considering the relationship between the degree of internationalisation and firm performance in a given context.

TABLE 2: Study variables

Variable	Variable type	Definition	Operationalisation	Source
Firm performance	Dependent	The overall level of firm profitability	The ratio of firm profit before interest and after taxes divided by total sales	Bloomberg[4]
DOI	Independent	Sales relating to international operations	The ratio of foreign sales to total sales	Bloomberg[4]
Size	Control	Total assets	The sum of all assets	Bloomberg[4]
Liquidity	Control	Ease of converting assets to cash quickly	The ratio of cash and cash equivalents to total assets	Bloomber[4]
Absorbed slack resources	Control	Committed resources that are difficult to deploy and are embedded within a firm as surplus resources	The ratio of employee expenses to total sales	Bloomberg[4]
Unabsorbed slack resources	Control	Uncommitted resources that can be deployed without difficulty in a firm	The ratio of current assets to current liabilities	Bloomberg[4]
MOD1	Moderator	Interaction between the DOI and absorbed slack resources	DOI * ratio of employee expenses to total sales	Calculation
MOD2	Moderator	Interaction between the DOI and unabsorbed slack resources	DOI * ratio of current assets to current liabilities	Calculation

[4] Data sourced from Bloomberg Terminal, accessed at the University of Cape Town

3.4 DATA ANALYSIS

This study analyses the impact of the degree of firm internationalisation on performance using estimates from panel regression models. These models will estimate the relationship between the degree of internationalisation and firm performance using a dependent variable (ROS) and seven independent variables, including controlling for firm size and liquidity. Similar to other studies examining the relationship between the degree of internationalisation and firm performance, this study employed the Hausman test to determine whether a fixed effects model or a random effects model is more appropriate, thereby testing for potential endogeneity arising from correlation between the regressors and unobserved effects (Hausman, 1978). In addition, variables in the models testing for interaction effects are mean-centred by deducting the mean value to reduce multicollinearity issues (Aiken et al., 1991). Due to the nature of panel data (Wooldridge, 2010), this study uses a three-year lagged dependent variable. This approach is similar to previous studies to allow for the effects of internationalisation to materialise (Bıçakcıoğlu-Peynirci & Morgan, 2022; Capar & Kotabe, 2003; Hitt et al., 2006). The results of the Hausman test are analysed in the results chapter of the study. The model structure adopted for this study is as follows (Wooldridge, 2010):

$$ROS = \alpha + \beta_1 DOI_{it} + \beta_2 SIZE_{it} + \beta_3 LIQUI_{it} + \beta_4 USR_{it} + \beta_5 ASR_{it} + \beta_6 (USR_{it} * DOI_{it}) + \beta_7 (ASR_{it} * DOI_{it}) + \varepsilon_i$$

Where,

ROS: Return on sales, a measure of firm performance

DOI: Measured by the ratio of foreign sales to total sales, a measure of firm internationalisation

Size: Measured by the natural logarithm of total assets, a measure of firm size

Liqui: Measured by the ratio of cash and cash equivalents to total assets

USR: Unabsorbed slack measured by the ratio of current assets to current liabilities, a measure of a firm's unabsorbed slack resources

ASR: Absorbed slack measured by the ratio of employee expenses to total sales; a measure of a firm's absorbed slack resources

ε_i: Error term

3.4.1 HYPOTHESIS TESTING

To investigate the hypotheses derived from the literature review, three distinct regression models were constructed, sequentially adding independent variables and interaction effects, to examine the impact on the dependent variables. This approach is consistent with similar studies examining the relationship between the degree of internationalisation and firm performance and the moderating effects of slack resources (Bıçakcıoğlu-Peynirci & Morgan, 2022; Luu et al., 2023).

By analysing the results of these models, the study seeks to uncover insights into how a range of factors interact to influence firm performance, in the context of South African firm internationalisation. In identifying these underlying dynamics, the research aims to shed light on the complexities of how firms navigate international markets and the conditions under which their performance improves or diminishes. These findings are expected to contribute to the existing body of knowledge, enriching the academic understanding of international business practices. This is particularly true for the moderating effect of absorbed and unabsorbed slack resources, which are comparatively under-researched areas.

CHAPTER 4: RESULTS

This chapter presents descriptive statistics for the variables analysed in the study and presents the results of the regression analysis for each of the hypotheses tested. The results and implications for each hypothesis are subsequently discussed in Chapter 5.

4.1 DESCRIPTIVE STATISTICS

Table 3 presents the descriptive statistics and the correlations of the variables included in the data from 2010 to 2019. Overall, the dataset suggests moderate variability, with only firm liquidity showing lower variability. The statistics around firm size indicate a mean of 23.2, a median of 23.3 and a standard deviation of 1.5. These statistics indicate moderate variability in firm size across the sample with no significant skewness. An average liquidity of 10.5% with a standard deviation of 8.3% indicates significant variation among South African firms, likely due to differing liquidity needs across sectors. The mean of ROS is 10.2% with a median of 7.8%, which suggests that most firms have an ROS below the mean but also that several firms with high profitability in the dataset are pushing the mean higher. The mean for DOI is influenced similarly by the inclusion of the Basic Materials sector, which includes mines with a mean DOI of 53.8%, the highest of all sectors. This is notable as the only similar study performed in a South African context excluded this sector from its dataset. Absorbed slack resources show a mean of 17.0%, a median of 14.1% and standard deviation of 12.4%. The mean being higher than the median suggests that South African firms maintain higher levels of absorbed slack resources. The standard suggests that there is relatively high variability across South African firms with a positive skew, indicated by the mean being higher than the median, suggesting that a smaller number of firms are pulling the average upward. These committed resources may limit firms' ability to respond to respond to challenges related to internationalisation. Unabsorbed slack resources show a mean of 1.7, a median of 1.5 and a standard deviation of 1.0. These suggest that meaningful variation across firms, similar to the liquidity measures. These likely reflect the wide range of industries in the sample.

The descriptive statistics do not indicate evidence of significant multicollinearity ($\rho < 0.8$). Multicollinearity occurs when there is a correlation among the independent variables being analysed, which can hinder the interpretation of data results when it is severe (Farrar & Glauber, 1967). A further test for multicollinearity, a variance inflation factor (VIF) test, was performed. A basic rule applied when interpreting the VIF is that

a measure exceeding 10 is evidence of severe multicollinearity (Koutsoyiannis, 1977). The highest VIF is 2.70, indicating that multicollinearity is not an issue in the analysis.

TABLE 3: Descriptive statistics and correlation matrix

							Correlation matrix				
	Variables	**Mean**	**Median**	**SD**	**Max**	**Min**	**2**	**3**	**4**	**5**	**6**
1	ROS (lagged)	10.2%	7.8%	12.7%	65.8%	-79.2%					
2	DOI	31.2%	22.2%	25.3%	96.0%	0.1%	1				
3	$Size_{log}$	23.2	23.3	1.5	26.9	17.6	-0.000	1			
4	Liquidity	10.5%	8.1%	8.3%	46.1%	0.1%	0.000	-0.000	1		
5	Absorbed slack	17.0%	14.1%	12.4%	81.4%	0.6%	-0.002	-0.000	-0.000	1	
6	Unabsorbed slack	1.7	1.5	1.0	7.6	0.4	0.000	-0.000	-0.000	-0.000	1

4.2 ESTIMATION OF MODEL

A specification test was performed to determine whether a fixed effects model or a random effects model is more appropriate. This determination is made based on the results of the Hausman test, which tests for endogeneity (Hausman, 1978). Under the Hausman test, the null hypothesis (H0) is that the error term is correlated with the explanatory variables. If they are correlated, the random effects estimator is more consistent. The results of the Hausman test returned a chi-square statistic of 17.15409 with 5 degrees of freedom and a probability of 0.0042. The results indicate that the null hypothesis is rejected. Therefore, the fixed effects model is the preferred specification for answering the research question.

Autocorrelation does not appear to be a concern, as the Durbin-Watson statistics for the estimated models fall between 1.84 and 1.93. Since values near 2 indicate little to no first-order autocorrelation, these results suggest that autocorrelation is likely negligible (Wooldridge, 2010). The results of the statistical test are presented in Appendix B.

Table 4 presents an analysis of the fixed regression coefficient estimates, incorporating the interaction effects of several variables: a firm's degree of internationalisation, absorbed slack resources, and unabsorbed slack resources on performance.

4.2.1 RESULTS OF MODEL 1: The relationship between the DOI and firm performance

Model 1 includes the variable for the degree of internationalisation. This model is used to test Hypothesis 1 on the relationship between the degree of internationalisation and firm performance. The model was based on the following regression equation (the summarised results of the regression are presented in Table 4 while detailed results are presented in Appendix C):

ROS = 0.10643 + 0.09261DOI + -0.01106SIZE + 0.07888LIQUI

The result reveals a positive linear relationship between the degree of internationalisation and firm performance ($\beta = 0.09261$, $\rho > 0.01$). This result indicates that as firms increase their degree of internationalisation, they experience better financial performance. However, the p-value indicates that the relationship is

insignificant (ρ>0.01). The insignificant result suggests that the degree of internationalisation cannot explain some of the shifts in firm performance.

The coefficients of the control variables of firm size (0.01106) and liquidity (0.07888) also indicate a positive but insignificant relationship with firm performance (ρ>0.01). The results suggest that while liquidity and firm size are positively related to firm performance, through the benefits of economies of scale and flexibility, the statistical significance suggests that the relationship is not robust. The overall model fit is reasonable at 0.295 compared with other studies that have been as low as 0.28 (Singh & Ahwireng-Obeng, 2013).

4.2.2 RESULTS OF MODEL 2: The relationship between the DOI and firm performance including slack resources

Model 2 includes the absorbed and unabsorbed slack resources variables. The model was based on the following regression equation (the summarised results of the regression are presented in Table 4 while detailed results are presented in Appendix C):

*ROS = 0.11030 + -0.00435DOI + 0.01157SIZE + 0.07632LIQUI + 0.45161*ASR + -0.03419USR

The coefficient for absorbed slack resources (β = 0.45162) indicates a positive relationship between absorbed slack resources and firm performance. The result, however, is statistically significant (ρ<0.01). Therefore, absorbed slack resources can be said to have a positive impact on firm performance. Model 2 also indicates that unabsorbed slack resources (β = -0.03419) have a negative and significant (ρ<0.01) relationship with firm performance. This suggests that firms with higher levels of unabsorbed slack resources such as cash, tend to perform worse due to inefficiencies. The relationship between the degree of internationalisation and firm performance, however, becomes negative but still insignificant (β = -0.00435, ρ>0.01) when controlling for absorbed and unabsorbed slack resources. This indicates that omitted variables may have influenced the initial positive, but insignificant, relationship indicated in Model 1. Firms with greater degrees of internationalisation may have access to more slack resources. When controlling for the impact of the resources, the impact may become negative. The insignificant results of the internationalisation and performance relationship in Model 2, however, means no firm conclusion can be drawn

on the relationship between the degree of internationalisation and firm performance. In line with expectations, the model fit for Model 2 improves to 0.332. The results in Model 2 reveal that both absorbed and unabsorbed slack resources have a significant impact on firm performance.

4.2.3 RESULTS OF MODEL 3: The relationship between the DOI and firm performance including slack resources and interaction effects

In Model 3, this study includes the interaction variables for absorbed and unabsorbed slack resources: DOI*Absorbed slack resources and DOI*Unabsorbed slack resources, respectively. The model produced the following regression equation (the summarised results of the regression are presented in Table 4, while detailed results are presented in Appendix C):
*ROS = 0.10762 + -0.02220DOI + 0.01421SIZE + 0.07380LIQUI + 0.41662ASR + -0.03643USR + 0.43596(ASR * DOI) + 0.01442(USR * DOI)*

The result indicates a negative but insignificant relationship between the degree of internationalisation and firm performance (β = -0.02220, ρ>0.01), similar to Model 2. This result contradicts Hypothesis 1, showing that internationalisation does not have a positive impact on firm performance. While the negative coefficient implies potential challenges for internationalising firms, the lack of statistical significance suggests that this effect is not robust. In addition, Model 3 indicates that there is an insignificant moderating impact of absorbed slack resources on the internationalisation and performance relationship (β = 0.43596, ρ>0.01), which contradicts Hypothesis 2. This indicates that absorbed slack resources do not have a meaningful moderating effect on the relationship between the degree of internationalisation and firm performance. The coefficient for the interaction term for unabsorbed slack resources also indicates a positive but insignificant moderating effect on the relationship between the degree of internationalisation and firm performance (β = 0.01442, ρ>0.01). This result also suggests that while higher unabsorbed slack resources strengthen the relationship between the degree of internationalisation and firm performance, the lack of statistical significance prevents this study from making conclusive inferences. This finding does not support Hypothesis 3. The coefficients for absorbed (β = 0.41662, ρ<0.01) and unabsorbed (β = -0.03643, ρ<0.01) slack resources reflect similar patterns to Model 2, showing statistically significant relationships - positive for absorbed slack and negative for unabsorbed slack. The adjusted R^2 of 0.331 is slightly lower than the result in Model

2 (0.332), suggesting that the inclusion of the interaction terms does not enhance the model's explanatory power in a meaningful way with respect to firm performance. The shape of the tested relationships are shown in Figure 2-4 below.

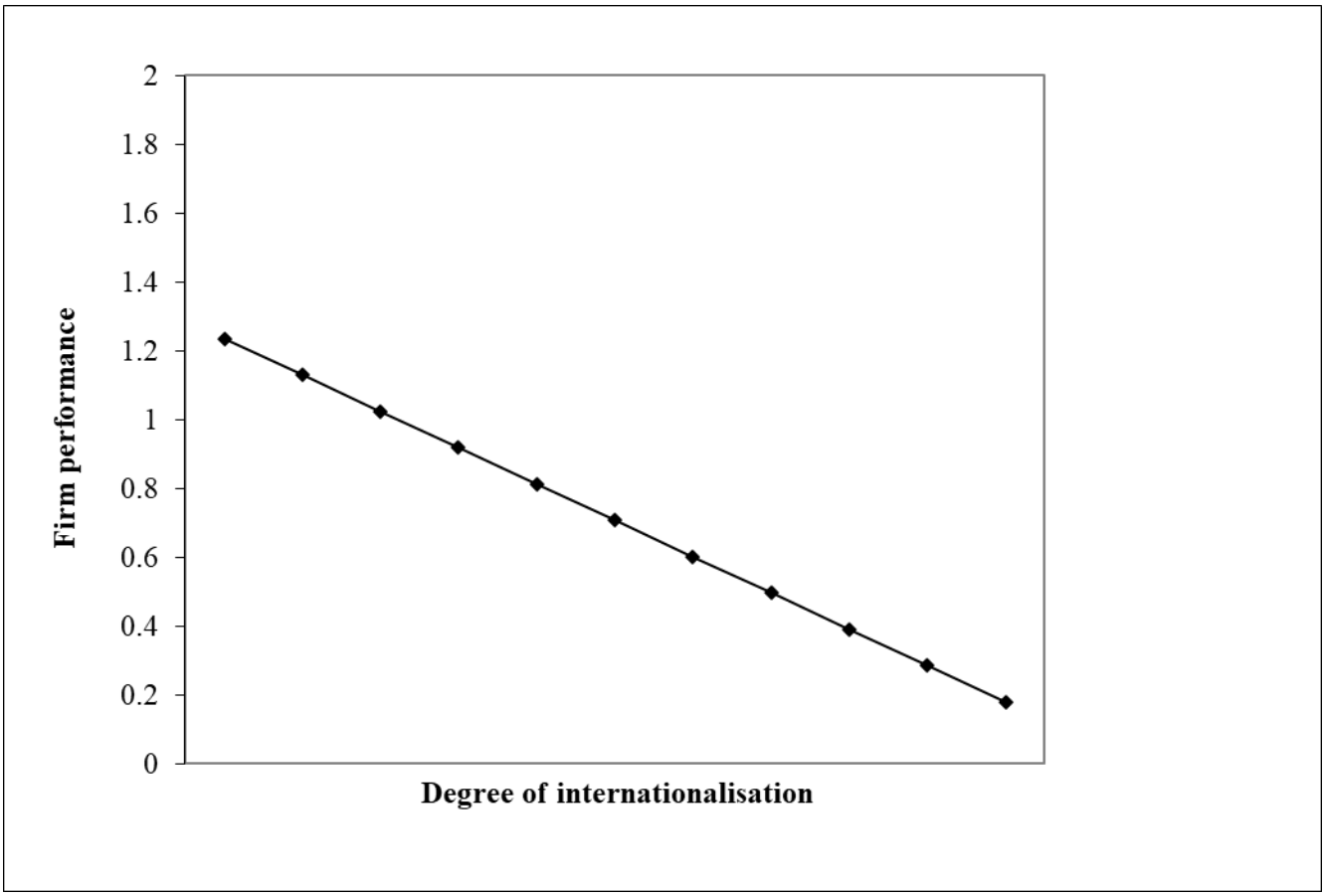

Figure 2: Non-significant relationship between the degree of internationalisation and firm performance

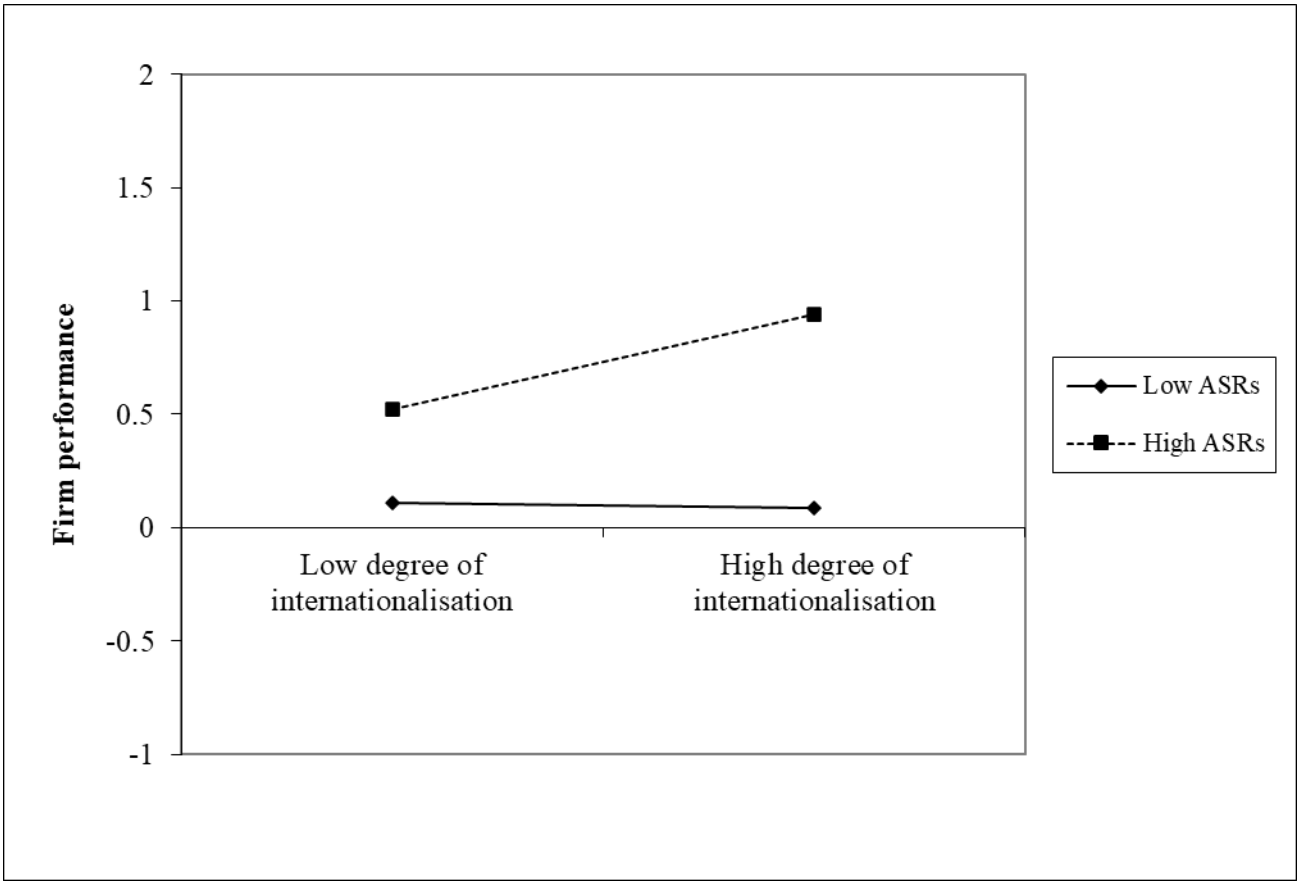

Figure 3: Non-significant moderating effect of absorbed slack resources on the relationship between the degree of internationalisation and firm performance

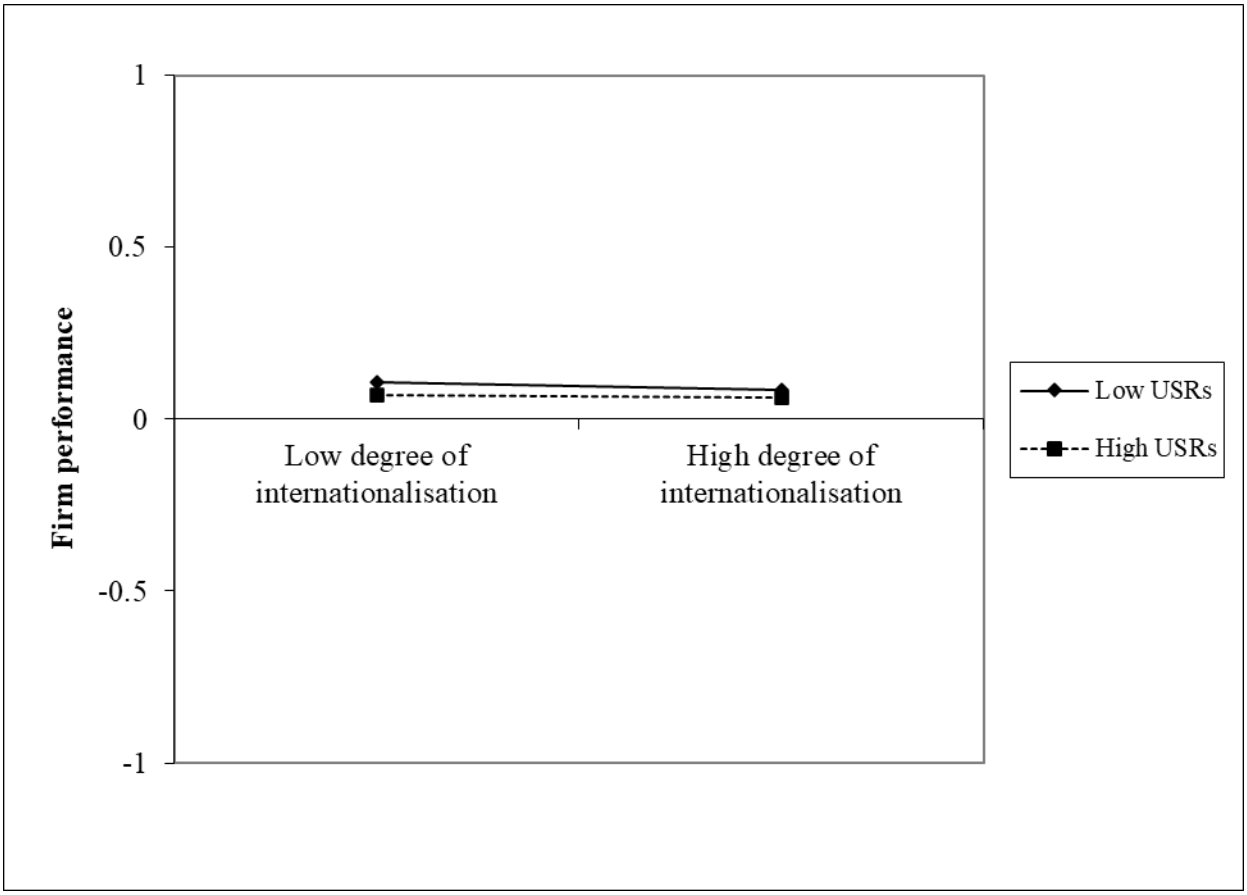

Figure 4: Non-significant moderating effect of unabsorbed slack resources on the relationship between the degree of internationalisation and firm performance

TABLE 4: Results of regression analysis

Variable	**Model 1**	**Model 2**	**Model 3**
Intercept	0.10643*** (0.00869)	0.11030* (0.00850)	0.10762*** (0.00896)
DOI	0.09261*** (0.0.06963)	-0.00435*** (0.07160)	-0.02220*** (0.07350)
Firm size (log)	0.01106*** (0.02094)	0.01157*** (0.0204)	0.01421*** (0.02073)
Liquidity	0.07888***(0.09659)	0.07632*** (0.09402)	0.07380*** (0.09416)
Absorbed slack resources		0.45161* (0.117354)	0.41662* (0.12289)
Unabsorbed slack resources		-0.03419* (0.01307)	-0.03643* (0.01328)
DOI * absorbed slack resources			0.43596*** (0.40421)
DOI * unabsorbed slack resources			0.01442*** (0.03643)
No. of observations	411	411	411
Adjusted R^2	0.29503	0.33233	0.33076

Notes: The number shown in each cell is the coefficient estimate, while numbers in brackets are standard errors. *ρ<0.01, **ρ<0.05, ***ρ>0.01.

CHAPTER 5: DISCUSSION

This study analyses the internationalisation of South African firms using Dunning's eclectic theory and the RBV as the underlying theoretical framework. Dunning's eclectic theory posits that specific resources of a firm, including resources available in its home country, significantly influence its decisions related to internationalisation and overall performance in foreign markets (Dunning, 1988). According to this theory, aspects - ownership advantages, location advantages, and internalisation advantages combine to determine the extent and nature of firms' international operations. The RBV, on the other hand, suggests that firms' possession of unique and imitable resources and capabilities allows firms to develop and maintain competitive advantages that aid them in their internationalisation. These resources include tangible and intangible resources such as brand reputation, management expertise, and organisational culture. By leveraging these distinct resources and capabilities, firms can navigate the complexities of internationalisation, maintaining a competitive advantage over rival firms and improving performance.

Through these combined theoretical lenses, this study can provide a framework for understanding the factors that shape firm strategic choices and how these relate to the performance outcomes of their internationalisation.

5.1 HYPOTHESIS 1

This study finds that the degree of internationalisation is negatively but insignificantly related to the performance of South African firms. Other findings in an emerging market context indicating a negative relationship include Luu et al. (2023) who attribute the negative relationship between the degree of internationalisation and firm performance to increased competition and administrative costs associated with global operations. Another finding amongst Mexican firms attributes a negative relationship to increased costs relating to the liability for foreignness and institutional constraints resulting from operating in foreign markets (Thomas, 2006). In a South African context, Singh & Ahwireng-Obeng (2013) attribute lower firm performance to higher transaction costs as firms increase their degree of internationalisation. These factors are somewhat consistent with established literature on South African firm internationalisation. Besada (2005) cites competition from established multinational firms from Europe as one of

the challenges that South African firms face when developing their international operations. This poses a challenge for South African firms as they internationalise into both Africa and other more developed regions. Another area cost that South African firms incur is high insurance costs, particularly when internationalising into Africa, as the region is often dogged by high risk (Besada, 2005). Singh & Ahwireng-Obeng (2013) concurred with this reasoning, finding that as South African firms increase their degree of internationalisation and thus risk, they develop and employ strategies to improve the predictability of profits from their foreign operations, which ultimately has a detrimental impact on their earnings.

The result of this study conflicts with findings by other emerging market studies, which found a positive relationship. Yahaya (2018)'s study of Nigerian firms found that internationalisation was positively related to firm performance. However, that study only analysed manufacturing firms, which would more likely benefit from economies of scale compared to other sectors (Zainudin et al., 2021). This study included all sectors with internationalised operations, which would reflect a range of different nuances in how their industries are impacted by internationalisation. As presented by Xiao et al. (2019) and Capar & Kotabe (2003) the benefits of internationalisation that accrue to one industry might not accrue to another, resulting in different results in how internationalisation relates to firm performance. Still, this study does acknowledge this as a limitation since this analysis examines the overall relationship across industries and not specific industries.

Previous authors have highlighted and attributed South African struggles internationally to a lack of knowledge of their operating environments (Boso et al., 2019). In disregarding Africa, South African firms have struggled in other, more developed markets in which they have internationalised because they were unprepared (Musanhi, 2022). This lack of knowledge of foreign markets, together with a poor organisation of resources, led to poor performance in those markets, with MTN's experience in Nigeria being a famous example (Boso et al., 2019). This reasoning conflicts with other researchers' suggestions that South African firms' tendency to organise themselves as 'SA Inc' when internationalising allows them to share knowledge about foreign markets, thus allowing them to reduce their costs related to liability for foreignness (White & Van Dongen, 2017). It also suggests that South African

firms' use of networks is either not very effective or has overestimated benefits as they derive from such relationships when it comes to internationalisation. This would present an interesting rebuttal of the Commonwealth effects positive contribution to firm internationalisation performance.

While South African firms would have been expected to benefit from home country institutional voids that would aid them in their internationalisation, the results of this study suggest that home country benefits have not accrued to South African firms' internationalisation-performance relationship. Therefore, firms gain no experience benefit when internationalising into supposedly weaker institutional environments found in other emerging markets, and in fact, they are shown to experience weaker firm performance due to this factor as well. Institutional voids characterised by political instability, corruption, and increased levels of uncertainty are known to adversely impact firms from developed markets when they internationalise into the rest of Africa. This result suggests that these factors have no impact South African firms internationalisation performance. While previously, White & Van Dongen (2017) pointed to the use of networks for knowledge-sharing to overcome the costs of internationalisation in Africa, this has not translated into improved performance. Verhoef (2011) makes a similar argument about South African firms' internationalisation into Europe and other Western markets; however, this does not appear to have yielded positive benefits either. This study, however, does not differentiate between internationalisation into emerging versus developed markets, and this is a possible area that can be delineated in future research.

Conclusion: The findings do not provide support for the hypothesis that the degree of internationalisation is positively related to the performance of South African firms. This suggests that increasing the degree of internationalisation may not enhance the operational or financial outcomes of South African firms, contradicting the literature that holds that internationalisation leads to improved firm performance. The results indicate that there is a negative but insignificant relationship between the degree of internationalisation and firm performance.

5.2 HYPOTHESIS 2

This study found that absorbed slack resources have a positive but insignificant effect on the performance-internationalisation relationship, supporting neither of the 'slack is

inefficiency' or the 'slack is resource' perspectives (Lohrke et al., 2004). This indicates that absorbed slack resources do not have a meaningful impact on the firm-internationalisation relationship. This finding contradicts those of several authors who found that absorbed slack resources assist firms in their internationalisation by functioning providing an inimitable buffer against the uncertainties of internationalisation (Luu et al., 2023; Nguyen et al., 2019). As defined by Daniel et al. (2004), absorbed slack resources are differentiated by the inability to deploy them easily within an organisation. This lack of a moderating relationship may be because absorbed slack resources may be deployed during internationalisation, however, their effect on firm performance are neutralised by other factors. The difficulty that risk-averse and resource-constrained emerging market firms have in deploying these resources during internationalisation (Bıçakcıoğlu-Peynirci & Morgan, 2022) may result in them relying on other resources, such as networks, in order to improve firm performance (Verhoef, 2011). As such, this may suggest that while South African firms may have slack resources, they may not be deploying them to the extent that they positively impact their internationalisation performance. As suggested by Bıçakcıoğlu-Peynirci & Morgan (2022), this may stem from a reticence to deploy an inflexible resource in an unfamiliar terrain in the context of resource limitations that other emerging markets face. Political stability is one of the key criteria that South African firms use when selecting an international market to enter (Ashley et al., 2022). This limitation is amplified with a resource like absorbed slack, which would require time and cost to deploy and would likely cost even more to deploy in an unfamiliar environment. Boso et al. (2019) cite external dynamics and management overstretch as factors explaining some of the underperformance of South African firms in Africa. It may be that South African firms carry additional undeployable slack and are reluctant to deploy these to uncertain environments, which contributes to the negative relationship. This may be negative because undeployed slack undoubtedly carries an inefficiency cost that South African firms would be absorbing.

Another reason for the positive but insignificant relationship could be tied directly to how South African firms arrange and manage their human resources in foreign markets. Boso et al. (2019) highlight cross-cultural management issues as one of the challenges that African firms face during internationalisation. Africa is a very diverse continent and tends to be organised along regional lines (Ochieng et al., 2024), with

different countries underlined by different cultural practices. As such, what may be acceptable in terms of workplace practices in one country may not be acceptable in another. South Africa, compared to many of its regional and wider African peers, is very different in its makeup up and this may pose challenges in integrating and managing a diverse workforce, resulting in difficulties in deploying human labour effectively. This challenge is amplified in the context of the fragile historical dynamics that shaped South Africa's relations with the rest of Africa before the advent of democracy in South Africa (Boso et al., 2019). This difference is also reflected in more developed regions. Despite South African firms' early history of internationalisation and their relative standing as a strong democracy, they face challenges related to liability for emergingness (Zhang, 2022). This refers to negative perceptions they face regarding their home country. This may be reflected in local stakeholders' resistance to their presence in the developed markets, resulting in an increased cost of operating abroad (van Wyk & Luiz, 2024), including attracting suitable human labour, which may come at a premium in a bid to achieve legitimacy.

These results contrast with those of Luu et al. (2023), who reported that absorbed slack resources are beneficial to the internationalisation and firm performance relationship, as they absorb environmental challenges and allow firms to investigate and grow the firm during internationalisation. Similarly, in finding limited positive moderating effects of human resources at high levels of internationalisation, Nguyen et al. (2019) suggest that as firms increase their degree of internationalisation, the knowledge and skills acquired during early internationalisation are more difficult to deploy in other areas of the business to improve firm performance. This finding also places a focus on personnel resources in explaining the role of absorbed slack resources, similar to the present study. The study by Nguyen et al. (2019), however, analysed curvilinear effects, therefore, the results showing a positive moderating impact of absorbed slack resources do not hold through all degrees of internationalisation but rather fluctuate at different stages. In addition, there are several methodological areas, including how they operationalise absorbed slack resources, that result in differences between the current study and the previous analysis.

This result offers an opportunity to understand how internationalising firms operate in an uncertain environment. It also prompts a deeper analysis of strategies and practices

that South African firms use to deploy absorbed slack resources when operating in foreign markets. South African firms may need to adopt increased and possibly more flexible resource allocation and deployment strategies when internationalising. The results suggest that absorbed slack resources are positively related to firm performance, however, this has not translated to moderating the relationship between the degree of internationalisation and firm performance. As observed by Yankanna-Mohan (2018), lower-level and general workers are cheaper to deploy and offer more flexibility when transitioning to new environments. Adopting this approach may allow South African firms to organise their labour component along lines that may encourage flexibility when operating internationally while ensuring that they maintain scale. This recommendation, however, will benefit some industries like retail rather than more specialised service industries. This is a possible area for future study to understand how absorbed slack resources moderate the internationalisation-performance relationship in specific sectors. More broadly, however, South African firms may be able to overcome the inflexibility and deployment challenges associated with absorbed slack resources by adopting a more dynamic view of absorbed slack resources that considers future capacity needs as opposed to the traditional static view (Kim et al., 2022). This argument is arguably relevant where the slack resource is embedded within a firm's supply chain, like excess capacity (Yankanna-Mohan, 2018). Effectively utilising this capacity will require a dynamic view of future absorbed slack availability, thus incorporating future absorbed slack into firms' operating plans.

Conclusion: The findings do not provide support for the hypothesis that absorbed slack resources have a positive moderating effect on the relationship between the degree of internationalisation and the performance of South African firms. Absorbed slack, which refers to excess, committed resources within a firm, does not positively moderate the relationship between the degree of internationalisation and firm performance. This implies that merely possessing excess resources does not guarantee improved firm performance when internationalising.

5.3 HYPOTHESIS 3

While unabsorbed slack resources are negatively associated with firm performance, their interaction with internationalisation reveals a positive but insignificant relationship with firm performance. This result suggests that despite the flexibility afforded by

unabsorbed slack resources domestically, in an internationalised context, they serve to reduce internationalisation performance. This is contrasted to the general relationship between unabsorbed slack resources and firm performance, which indicates a negative relationship. This positive but insignificant moderating effect, however, is similar but more moderate compared to the absorbed slack. This likely indicates that while unabsorbed slack resources are notable for their increased utility of and ease of deployment of compared to absorbed slack resources, those advantages are less relevant to internationalisation. This result contradicts the findings of Bıçakcıoğlu-Peynirci & Morgan (2022) and Luu et al. (2023), who find a positive and significant moderating impact of unabsorbed slack resources on the relationship between the degree of internationalisation and firm performance. This relationship is attributed to increased utility in internationalising firms, which allows them to better navigate uncertain environments. These particularly assist firms in overcoming costs of internationalisation, including liability for foreignness, and find empirical support in the findings of Nguyen et al. (2019) that this class of slack resources is most effective where there are higher costs of foreignness, being in the early stages of internationalisation. The positive relationship found in this study, however, suggests that higher levels of unabsorbed slack resources are irrelevant to firm internationalisation performance.

While not significant, the positive direction of the moderating impact of unabsorbed slack resources is less consistent with the ‘slack as inefficiency’ perspective posited by Daniel et al. (2004). This view suggests that slack resources may encourage inefficient decision-making motivated by politics or self-serving behaviours that are not to the benefit of the firm. In tracing the history of South African firm internationalisation, Verhoef (2011) finds that an abundance of excess capacity built up during isolation spurred South African firms to adopt internationalisation as a strategy. However, the result suggests that while the deployment of unabsorbed slack resources during internationalisation have a positive relationship with internationalisation, the lack of statistical significance points to an uncertain impact – raising questions about the efficiency of their use, as noted by Musanhi (2022). Literature suggests that emerging market firms favour acquisitions when internationalising into developed markets (Bhaumik et al., 2019; Liou & Rao-Nicholson, 2017). This may be done to overcome the liability for emergingness that they face when internationalising into developed

markets. However, this may result in the over-deployment of their resources in those markets. In an infamous blunder, South African firm Woolworths' CEO admitted that the firm overpaid for the acquisition of David Jones, an Australian firm, in 2014 (CNBC Africa, 2019). It is possible that in attempting to escape home country inefficiencies, South African firms are over-deploying their accumulated surplus resources in developed markets in search of growth; however, these have not translated into significant performance advantages. The positive yet statistically insignificant effect of resource deployment may be attributed to the considerable institutional differences between markets and the late-mover disadvantages faced by emerging market firms when entering developed economies (Luu et al., 2023), which can constrain the effectiveness of these resources. One suggestion is that South African firms' lack of experience in internationalisation has contributed to the poor performance of some cross-border ventures (Liou & Rao-Nicholson, 2017). These include difficulties is managing the physical and institutional distance between South Africa and the foreign market poor performance (Liou & Rao-Nicholson, 2017).

Another possible reason for the positive but insignificant moderating impact is a lack of dynamic managerial capabilities. The effective deployment of slack resources is more linked to management's dynamic capabilities, as suggested by Yankanna-Mohan (2018). Yankanna-Mohan (2018)'s view is supported by the suggestion that more volatile and uncertain environments require more dynamic management of resources to maintain competitive advantage (Teece et al., 1997). This is arguably crucial for emerging market firms, which often face late-mover disadvantages and resource constraints when operating in international markets. As suggested by Luo (2000), firms that fail to develop new resource allocation capabilities will soon find their resource allocation advantages become disadvantages. As firms increase the degree of their international operations, their ability to manage complex resources becomes more important, necessitating the acquisition of knowledge and expertise in order to yield performance benefits from deploying unabsorbed slack resources.

Conclusion: The results do not support the hypothesis that unabsorbed slack resources positively influence the relationship between the extent of internationalisation and the performance of South African companies. Unabsorbed slack, referring to excess resources that are not committed within a firm, also fails to

positively influence the relationship between the degree of internationalisation and firm performance. This suggests that excess and flexible resources by themselves are not being effectively leveraged to improve performance in an internationalised context.

In summary, these findings suggest that factors expected to improve the internationalisation performance of firms may not apply in a South African context. These results provide valuable guidance for business leaders and decision-makers aiming to pursue or support international expansion efforts. The relevant stakeholders need to understand the various factors and moderating variables that impact firm internationalisation as well as how these factors translate into firm performance.

CHAPTER 6: CONCLUSIONS, IMPLICATIONS AND LIMITATIONS OF THE STUDY

6.1 CONCLUSIONS

Literature has shown how South African firms have consistently engaged in internationalisation as an avenue for firm growth. While internationalisation has been associated with benefits including opportunities to enter new markets, acquire technology, and develop capabilities, it is also replete with challenges. These challenges include foreign currency fluctuations, liability for foreignness, and operating in an unknown environment. There is also the challenge of institutional voids in the case of African countries. Even with the present challenges, South African firms have attempted to leverage their firm-specific attributes to internationalise. Drawing on the RBV, firms draw on their firm-specific resource advantages to build competitive advantages that aid their internationalisation. South African firms are no different in this regard, leveraging their resources to aid them in their internationalisation. They also draw on their home country's idiosyncrasies, such as advanced infrastructure and trade relations, to expand beyond borders. Anecdotally, however, their internationalisation ventures have brought about varying levels of success. In the context of South African firms. Only one other study has attempted to analyse the relationship between the degree of internationalisation and firm performance in the South African context; however, no other study on South African firms has extended this to include the moderating effect of firm-specific attributes. This study sought to analyse the relationship between the degree of internationalisation and firm performance, as well as the moderating effect of firm-specific and institutional factors on this relationship. Analysing 74 firms between 2010 and 2019, this study has attempted to extend the existing knowledge on firm internationalisation in an emerging market context by identifying not only the nature of the relationship between the degree of internationalisation and firm performance but also understanding the unique factors that can shape this relationship.

The first hypothesis was that there is a positive relationship between the degree of internationalisation and firm performance. This hypothesis was not supported by the data. The results suggested that the degree of internationalisation has no relationship to the performance of South African firms.

The second hypothesis was that absorbed slack resources have a positive moderating effect on the relationship between the degree of internationalisation and firm performance. This hypothesis was not supported by the data. The results suggest that higher possession of absorbed slack resources has no moderating effect on the relationship between the degree of internationalisation and the performance of South African firms.

The third hypothesis was that unabsorbed slack resources have a positive moderating effect on the relationship between the degree of internationalisation and firm performance. This hypothesis was not supported by the data. The results suggest that higher possession of absorbed slack resources has no moderating effect on the relationship between the degree of internationalisation and the performance of South African firms.

6.2 IMPLICATIONS OF THE STUDY

This study contributes to internationalisation literature in two ways. Firstly, much of the early literature on internationalisation focused on firms from developed markets. By studying internationalisation in a developing market context, this study enriches and contributes to a growing body of literature on internationalisation in developing markets. It addresses the gap in internationalisation literature by not only seeking to understand the general relationship between the degree of internationalisation and firm performance but also analysing the impact of intervening variables on that relationship. This is a significant gap that several researchers have sought to address in enhancing our understanding of firm internationalisation in a developing market context.

Secondly, the study addresses the key role of resources that may either support or hinder the internationalisation performance of firms. It does so by identifying two types of slack resources and examining how these resources shape the relationship between the degree of internationalisation and firm performance. By investigating these dynamics, the study examines whether these resources enable or constrain firms during their internationalisation. Drawing on the RBV, this research underscores the strategic importance of resource utilisation and allocation in improving firm performance. Additionally, it highlights two contrasting perspectives on slack resources—absorbed and unabsorbed slack—and how these resources interact with firm internationalisation. Through this exploration, the study makes a significant

contribution to the existing literature by providing a nuanced understanding of how slack resources can either amplify or mitigate the impact of internationalisation when viewed through the lens of firm performance.

Implications for managers and policymakers

The findings of this study have important implications for managers, particularly in emerging economies. Firstly, they demonstrate the contradictory impact of slack resources in improving firm performance. This view aligns with the view that different types of slack resources impact firm performance differently (Daniel et al., 2004). Therefore, both absorbed and unabsorbed slack resources are able to impact the performance of South African firms. However, as found by previous studies, this study also finds that the relationship becomes insignificant when firms increase their degree of internationalisation. This study suggests that this has resource allocation implications for firms considering internationalising their operations, as the slack resources are currently allocated during internationalisation may not have an impact on how internationalised firms perform.

Secondly, the findings of this study suggest that internationalisation is entirely irrelevant to firm performance. Contradicting the findings of Simon Xiao et al. (2019) and several other authors around institutional voids in home countries, strengthening managers' resolve in internationalised operations. Viewed together with the results around slack resources, this may suggest that positive internationalisation performance is more strongly shaped by other factors such as dynamic managerial capabilities and possible location factors than by the mere possession of slack resources. This finding has the potential to shape firms' approaches to both resource allocation in their international operations as well as organisational learning.

6.3 LIMITATIONS OF THE STUDY AND AREAS FOR FUTURE RESEARCH

There are several limitations to be noted in this study. Firstly, this study is based only on the published information of JSE-listed firms. Several firms do not disclose the entire extent of their internationalisation, particularly in instances where the size of their internationalisation is fairly small. Therefore, firms with smaller international operations have potentially been overlooked due to a lack of disclosure. Linked to this limitation is the fact that this study was unable to control the scope of internationalisation. Other studies have highlighted the importance of not only the size of international operations

but also their scale, since operating in two international operations presents different dynamics to operating in five operations of similar size. Therefore, a more nuanced measure of internationalisation that considers both the scale and scope of international operations might have drawn different results. Secondly, this study chooses a specific operationalisation of slack resources. Literature has identified a wide range of measures for slack resources, both absorbed and unabsorbed. These measures differ based on the availability of resources as well as more nuanced definitions of slack resources. Variations in these factors may result in different operationalisations, which may ultimately lead to different results.

This study suggests several areas for future research. Future research may examine the extent to which internationalisation relates primarily to the performance of South African firms in Africa. South Africa is, indeed, the leading country in terms of internationalisation in Africa; however, the extent of South African firms' performance in Africa may be of particular interest given the growing importance of the African market. The challenges faced by South African firms in developing markets such as Africa would be quite different from those they face in more developed markets like Western Europe and America. This might produce different results given the different sorts of home country institution pressures that shape their relevant strategies and resource endowments. Finally, future research may use different operationalisations of the variables used in the study to test the robustness of those used in the current study. This may include a different operationalisation of the measure used for the degree of internationalisation. This study uses FSTS due to the limited availability of data. However, future research may use composite measures that account for the distance between South Africa and the foreign market as well as the number of foreign markets they operate in. Future research may also focus on specific industries to better understand whether internationalisation may be better suited for some industries than others. This may particularly be the case when also examining the moderating effect of slack resources, which may be more relevant for some companies. This may extend the scope of the model and provide other areas for future research.

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Appendix A: DATASET COMPOSITION

Industry	**No**	**%**
Basic Materials	14	19%
Consumer discretionary	15	20%
Consumer staples	9	12%
Energy	1	1%
Financials	1	1%
Healthcare	4	5%
Industrials	21	28%
Technology	6	8%
Telecommunications	3	4%
	74	100%

Appendix B: RESULTS OF STATISTICAL ANALYSIS

Hausman test

Correlated Random Effects - Hausman Test

Test Summary	**Chi-Sq. Statistic**	**Chi-Sq. d.f.**	**Prob.**
Cross-section random	17.15411	5	0.00422

Cross-section random effects test comparisons:

Variable	**Fixed**	**Random**	**Var(Diff.)**	**Prob.**
DOI	-0.00435	0.03533	0.00348	0.50100
Liquidity	0.07633	0.03548	0.00191	0.35050
Firm size	0.01157	0.00014	0.00037	0.55074
Absorbed slack	0.45162	0.13902	0.00827	0.00059
Unabsorbed slack	-0.03419	-0.01767	0.00010	0.09160

Cross-section random effects test equation:
Dependent Variable: ROS(-3)
Method: Panel Least Squares
Sample (adjusted): 2010 2019
Periods included: 10
Cross-sections included: 74
Total panel (unbalanced) observations: 411

Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
C	0.11030	0.00850	12.97376	0.00000
DOI	-0.00435	0.07160	-0.06076	0.95159
Liquidity	0.07633	0.09402	0.81181	0.41748
Firm size	0.01157	0.02048	0.56498	0.57247
Absorbed slack	0.45162	0.11735	3.84832	0.00014
Unabsorbed slack	-0.03419	0.01307	-2.61537	0.00932

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.4594	Mean dependent var	0.1122
Adjusted R-squared	0.3323	S.D. dependent var	0.1362
S.E. of regression	0.1113	Akaike info criterion	-1.3827
Sum squared resid	4.1107	Schwarz criterion	-0.6103
Log likelihood	363.1432	Hannan-Quinn criter.	-1.0771
F-statistic	3.6164	Durbin-Watson stat	1.9462
Prob(F-statistic)	0.0000		

Appendix C: REGRESSION RESULTS

Model 1

Dependent Variable: ROS(-3)
Method: Panel Least Squares
Sample (adjusted): 2010 2019
Periods included: 10
Cross-sections included: 74
Total panel (unbalanced) observations: 411

Variable	Coefficient	Std. Error	t-Statistic	Prob.
DOI	0.09261	0.06963	1.33010	0.18439
Liquidity	0.07888	0.09659	0.81660	0.41474
Firm size	0.01106	0.02095	0.52798	0.59787
C	0.10643	0.00869	12.24467	0.00000

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.42571	Mean dependent var	0.11220
Adjusted R-squared	0.29503	S,D, dependent var	0.13618
S.E. of regression	0.11434	Akaike info criterion	-1.33206
Sum squared resid	4.36650	Schwarz criterion	-0.57918
Log likelihood	350.73804	Hannan-Quinn criter,	-1.03423
F-statistic	3.25772	Durbin-Watson stat	1.84727
Prob(F-statistic)	0.00000		

Model 2

Dependent Variable: ROS(-3)
Method: Panel Least Squares
Sample (adjusted): 2010 2019
Periods included: 10
Cross-sections included: 74
Total panel (unbalanced) observations: 411

Variable	Coefficient	Std. Error	t-Statistic	Prob.
DOI	-0.00435	0.07160	-0.06076	0.95159
LIQUIDITY	0.07633	0.09402	0.81181	0.41748
CONT_ASSETS	0.01157	0.02048	0.56498	0.57247
ABSORBED_SLACK_EMPLOYEE_COST	0.45162	0.11735	3.84832	0.00014
UNABSORBED_SLACK	-0.03419	0.01307	-2.61537	0.00932
C	0.11030	0.00850	12.97376	0.00000

Effects Specification			
Cross-section fixed (dummy variables)			
R-squared	0.45935	Mean dependent var	0.11220
Adjusted R-squared	0.33233	S,D, dependent var	0.13618
S.E. of regression	0.11127	Akaike info criterion	-1.38269
Sum squared resid	4.11071	Schwarz criterion	-0.61026
Log likelihood	363.14323	Hannan-Quinn criter,	-1.07713
F-statistic	3.61637	Durbin-Watson stat	1.94618
Prob(F-statistic)	0.00000		

Model 3

Dependent Variable: ROS(-3)
Method: Panel Least Squares
Sample (adjusted): 2010 2019
Periods included: 10
Cross-sections included: 74
Total panel (unbalanced) observations: 411

Variable	Coefficient	Std, Error	t-Statistic	Prob,
DOI	-0.02220	0.07350	-0.30205	0.76281
LIQUIDITY	0.07380	0.09416	0.78374	0.43376
CONT_ASSETS	0.01421	0.02073	0.68573	0.49337
ABSORBED_SLACK_EMPLOYEE_COST	0.41662	0.12289	3.39011	0.00078
UNABSORBED_SLACK	-0.03643	0.01328	-2.74309	0.00642
MOD2	0.01442	0.03698	0.38997	0.69681
MOD1	0.42596	0.40421	1.05381	0.29274
C	0.10762	0.00896	12.01407	0.00000

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.46134	Mean dependent var	0.11220
Adjusted R-squared	0.33076	S,D, dependent var	0.13618
S,E, of regression	0.11140	Akaike info criterion	-1.37665
Sum squared resid	4.09556	Schwarz criterion	-0.58467
Log likelihood	363.90218	Hannan-Quinn criter,	-1.06335
F-statistic	3.53295	Durbin-Watson stat	1.94167
Prob(F-statistic)	0.00000		