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DEPLOYING FINANCIAL SLACK AS A DYNAMIC CAPABILITY: MECHANISMS OF MSME RESILIENCE

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ABSTRACT

Objective: This study analyzes how the initial volume of financial slack dictates the dynamic capabilities (sensing, seizing, transforming) of SME owner-managers during severe macroeconomic crises, and explores the mechanisms by which liquidity is converted into organizational resilience.

Research Design & Methods: Using a qualitative, exploratory-inductive multi-case study design, this research examines six SMEs divided into two polar clusters: high versus low financial slack. Data were collected through the triangulation of in-depth interviews, cash flow statements, and observations, and were rigorously analyzed using Gioia's methodology via a three-stage coding process.

Findings: A cross-case analysis reveals radical divergences in behavior. In the sensing phase, high slack frees up cognitive bandwidth for long-term market scanning, while cash scarcity triggers liquidity myopia that limits attention to short-term threats. In the seizing phase, resource-rich firms employ ambidextrous allocation (balanced defensive-offensive), whereas resource-poor firms experience pure defensive structural paralysis. In the transforming phase, residual capital functions as an error-tolerance cushion enveloping pivot transition risks, while cash-deficient cases are trapped in the inertia of outdated routines.

Implications & Recommendations: Theoretically, this study integrates the Dynamic Capabilities Perspective and Resource Orchestration Theory by demonstrating that liquid capital is a material prerequisite for cognitive flexibility. Managerially, SME owners should avoid hyper-lean operations and treat financial slack as a strategic investment that safeguards adaptive capacity.

Contribution & Value Added: This study unpacks the microfoundations of SME resilience by demonstrating that financial slack is not merely a passive asset buffer, but a vital cognitive and material catalyst that transforms strategic awareness into structured organizational renewal.

Keywords: Financial slack, Dynamic capabilities, SME resilience, Resource orchestration, Cognitive myopia.

JEL codes: L26, M10, G32.

Article type: research paper

INTRODUCTION

Today's business landscape is increasingly characterized by unexpected, sudden, and highly disruptive exogenous shocks. From sudden macroeconomic shifts and extreme regulatory overhauls to the collapse of global supply chains and massive technological disruptions, Micro, Small, and Medium Enterprises (MSMEs) are forced to operate in an environment fraught with existential vulnerabilities (Olajide & Fajobi, 2026). Globally, MSMEs form the backbone of the economic infrastructure, representing over 90% of all business units and contributing significantly to employment and the aggregate Gross Domestic Product (GDP) (Rahman et al., 2024). However, the inherent characteristics embedded in their structure—conceptually often referred to as the “liability of smallness”—severely limit their capacity to withstand severe external shocks

(Brinckmann et al., 2011). Unlike large multinational corporations, which possess extensive institutional resources, diversified market portfolios, and formal risk management departments, MSMEs suffer from acute resource constraints, thin operating margins, and a lack of institutional buffers (Linnenluecke, 2017). As a result, when unexpected environmental shocks hit the market, MSMEs often face the threat of bankruptcy in a matter of weeks. It is this reality that makes the exploration of MSME resilience a crucial imperative, both for the strategic management literature and for economic policy.

Organizational resilience, defined as a company's capacity to anticipate potential threats, effectively manage unexpected events, and adapt structurally to emerge stronger post-crisis (Dahmen, 2023; Duchek, 2020), is fundamentally rooted in the availability of resources. In the strategic management literature, the existence of reserve resources—particularly financial slack—has long been recognized as a primary defense mechanism against environmental turbulence (George, 2005). Financial slack refers to liquid financial resources that are not yet committed (such as cash surpluses, retained earnings, or unused credit lines) that exceed a company's immediate operational needs (Kosmala & Blach, 2019; Voss et al., 2008). In times of crisis, this financial cushion acts as an instant shock absorber that prevents technical insolvency, secures core operational assets, and buys the firm critical time to formulate a strategy (Beliaeva et al., 2020). Previous empirical studies using quantitative methodologies have strongly demonstrated a positive relationship between the volume of financial slack and various corporate performance metrics during crises (Carnes et al., 2017; Latham & Braun, 2011). These studies argue that high levels of financial slack insulate firms from capital market imperfections, thereby enabling them to maintain routine operations when external funding dries up.

Although these insights are well-established, there is a deep conceptual and empirical disconnect in the current literature regarding the actual role of financial slack in the context of smaller organizations. Most foundational research on reserve resources is contextualized within large publicly listed corporations featuring decentralized management structures and formalized budgeting systems (Alam & Alam, 2022; George, 2005). In such corporate settings, financial slack is typically measured as a static ratio derived from year-end financial statements—such as the current ratio, debt-to-equity ratio, or cash-to-sales ratio (Voss et al., 2008). When this static, large-corporation-oriented paradigm is directly applied to MSMEs, the model fails to capture the highly fluid and dynamic operational realities of entrepreneurial governance (Ammar & Hassan, 2024; Rajagopal, 2021). MSMEs rarely have formal financial forecasting, and their survival during shocks is not merely a mathematical function of the volume of cash sitting in their bank accounts. Rather, it depends heavily on the subjective interpretation, cognitive agility, and behavioral responses of the owner-managers who command those resources.

This structural oversight has led to an oversimplified and static view of financial resources in the business resilience literature. By treating financial slack purely as passive asset ownership or a static financial metric, existing studies effectively treat the internal mechanisms of resource allocation as a "black box" (Linnenluecke, 2017; Suddaby et al., 2015). A critical tension emerges here: two different SMEs may enter an identical macroeconomic crisis with exactly the same amount of financial slack, yet emerge with vastly different outcomes—one successfully pivots its business model to capture new market share, while the other depletes its cash reserves in an attempt to maintain outdated routines before eventually collapsing. This variation strongly indicates that merely having reserve funds does not guarantee survival or adaptation to shocks. Instead, the critical determinant of resilience lies in the company's fundamental capability to actively mobilize, reconfigure, and deploy those reserve funds in real-time in response to shifting environmental threats (Nair et al., 2024).

To address this gap, this study argues that financial slack must be reconceptualized from a static asset into an active instrument of Dynamic Capabilities. Rooted in the framework developed by Teece et al. (1997) As further elaborated by Teece (2007), dynamic capabilities refer to an organization's meta-routines for sensing market threats and opportunities, seizing those opportunities through the rapid bundling of resources, and transforming or reconfiguring the organizational structure as the environment evolves. Although traditional dynamic capabilities

theory places strong emphasis on technological assets, intellectual property rights, and complex corporate R&D routines (Teece, 2014). Its application to the microfoundations of financial resource mobilization—particularly in resource-constrained MSMEs—remains underdeveloped. In an entrepreneurial context, owner-managers represent the primary locus of dynamic capabilities (Barreto, 2010; Ferreira & Coelho, 2020). Therefore, exploring how financial slack is deployed requires a granular, process-oriented investigation into how these decision-makers cognitively evaluate their financial buffers, how they strategically allocate them under high ambiguity, and how these allocations facilitate two distinct strategic outcomes: short-term shock absorption versus long-term structural adaptation (adaptation mechanisms).

This conceptual gap cannot be bridged by relying on large-scale cross-sectional survey designs or analyses of secondary financial databases, which are structurally blind to the longitudinal and retrospective processes of strategic decision-making during crises. Dissecting the non-linear daily operational maneuvers of an SME owner-manager demands a rigorous qualitative approach. Consequently, this study adopts Eisenhardt (1989) by examining six MSMEs selected through purposive sampling that operate in highly turbulent market conditions. By examining polar cases—contrasting firms with high versus low financial slack, as well as high versus low resilience outcomes—this study traces the behavioral trajectories of how these resources are allocated. Our qualitative investigation specifically focuses on the real trade-offs faced by owner-managers as they decide whether to use their scarce financial buffers for immediate tactical defense (e.g., paying off urgent liabilities, maintaining employee wages) or strategic offensives (e.g., funding a business model pivot, investing in digital infrastructure, or entering new, unexploited market niches).

The theoretical novelty of this article lies in two key reconceptualizations: treating financial slack as a dynamic capability rather than merely a static asset, and mapping in granular detail the distinctive mechanisms that distinguish the absorption of immediate shocks from long-term structural adaptation in the context of small firms. While previous research treated reserve funds as a homogeneous predictor of resilience (Carnes et al., 2017; George, 2005), We challenge this static assumption by opening the “black box” of resource allocation, demonstrating that reserve funds only generate resilience when mediated by specific routines of sensing, seizing, and transforming. Furthermore, we extend Dynamic Capabilities Theory into the realm of entrepreneurship by demonstrating how the cognitive micro-foundations of owner-managers act as substitutes for institutionalized corporate routines when orchestrating cash surpluses under extreme ambiguity. Thus, this study shifts the academic conversation from a restrictive focus on how much reserve funds SMEs possess to a comprehensive process-oriented framework on how these reserve funds are dynamically deployed to transform existential crises into opportunities for strategic renewal.

LITERATURE REVIEW

Macro Theoretical Framework: Integrating Resource-Based Theory and Dynamic Capabilities

The Resource-Based View (RBV) and Its Limitations in a Turbulent Environment

For more than three decades, the Resource-Based View (RBV) has served as the dominant paradigm in strategic management for explaining the determinants of performance heterogeneity across firms (Barney, 1991). The epistemology of the RBV posits that sustained competitive advantage is achieved when a firm successfully masters and controls a bundle of resources that meets the VRIO taxonomy: valuable, rare, inimitable, and organized (institutionally structured) (Barney, 1991). This theory assumes the existence of resource heterogeneity (diversity of asset ownership) and resource immobility (the nature of assets that are not easily transferred), which theoretically isolates firms from the pressure of competitor market penetration (Crook et al., 2008).

However, the internal validity of RBV faces serious conceptual challenges when confronted with the volatility, uncertainty, complexity, and ambiguity (VUCA) that characterize the contemporary business environment (Priem & Butler, 2001; Scheibel et al., 2025). The most fundamental criticism is directed at the static bias inherent in RBV; this theory assumes that the economic value of VRIO assets is constant (Eisenhardt & Martin, 2017). In the aftermath of exogenous shocks—such as macroeconomic crises or technological disruptions—capital values

decline instantly due to drastic changes in market architecture (Barua & Barua, 2021). Abundant resource ownership without renewal can mutate into core rigidities that trigger organizational inertia and strategic blindness to change (Barton, 1992; Chatterjee, 2025). This demonstrates that in a turbulent environmental landscape, the control of strategic resources is merely necessary but not sufficient to ensure a company's survival (Sirmon et al., 2011). The reality of the crisis shifts the focus of scientific attention: what dictates an organization's survival is not what the firm possesses (what the firm has), but how the firm operates those assets (what the firm does).

The Dynamic Capabilities View (DCV)

To bridge the theoretical gap of the static bias in the Resource-Based View (RBV), Teece et al. (1997) formulates the Dynamic Capabilities View (DCV) as an evolutionary framework focused on environmental fitness. While the RBV is rooted in the optimization of resource allocation (resource picking), the DCV advances the proposition that competitive advantage is rooted in capability building—that is, a firm's capacity to deliberately create, expand, modify, and reconfigure its resource base to respond to radical changes in the macroenvironment (Černý et al., 2026; Teece et al., 1997). Competitive advantage in DCV is not understood as a static defensive position, but rather as a continuous process of organizational agility (Warner & Wäger, 2019). In the process-oriented taxonomy developed by Teece (2007, 2014), dynamic capabilities are operationalized through three structured pillars of meta-routines:

- Sensing: Socio-cognitive analytical activities to scan, identify, and interpret latent threats and emerging opportunities in the market amidst a crisis (Barreto, 2010).
- Seizing: The capacity for rapid mobilization and allocation of resources to execute opportunities or mitigate structural risks through business model innovation and targeted investments (Teece, 2007).
- Transformation: The process of continuously reconfiguring internal asset management and aligning organizational routines to break structural inertia and ensure operational compatibility with new external dynamics (Ambrosini & Bowman, 2009).

Theoretical Synthesis: Resource Orchestration in a Crisis

The integration of the Resource-Based View (RBV) and the Dynamic Capabilities View (DCV) gives rise to Resource Orchestration Theory, a conceptual synthesis that clearly distinguishes between “resources” as static inputs (the ‘what’ of strategy) and “capabilities” as dynamic processes (the ‘how’ of strategy) (Helfat & Martin, 2015; Sirmon et al., 2007). Resource orchestration theory argues that dynamic capabilities do not operate in a theoretical vacuum; their effectiveness requires the availability of sufficient capital or basic assets to be configured (Sirmon et al., 2011). In situations of large-scale exogenous disruption, an organization's fatal failure is often not caused by an absolute scarcity of slack resources, but rather by the paralysis of the owner-managers' dynamic capabilities in orchestrating that latent capital into adaptive strategic actions (Linnenluecke, 2017). Through this integrative lens, financial slack should no longer be viewed simplistically as a passive liquid asset item on the year-end balance sheet. Instead, financial slack is reconceptualized as a liquid strategic instrument whose utility is fully mediated by the acuity of the sensing, seizing, and transforming pillars (Beliaeva et al., 2020; George, 2005).

Mechanistically, this theoretical synthesis constructs a linear-interactive causal pathway linking resource inputs to organizational outputs through three transmission stages:

1. Initial Material Foundation (Resource Endowment): Financial slack (both available and potential types) acts as the baseline input representing RBV theory. Its uncommitted nature provides initial structural stability for the organization to cope with sudden shocks (Bourgeois & Singh, 1983).
2. Processual Mediation Mechanism (Dynamic Orchestration): Through the intervention of dynamic owner-manager capabilities (Teece, 2007), this passive capital is activated. This process begins with the utilization of slack to extend cognitive breathing room in detecting market

changes (sensing), funding instant risk mitigation decisions (seizing), and ultimately financing the total overhaul of outdated operational routines (transforming) (Sirmon et al., 2011).

3. Dual Organizational Output: The final outcome of this orchestration process branches into two complementary dimensions of resilience (Linnenluecke, 2017). First, the allocation of defensive slack generates the ability to absorb short-term operational shocks (shock absorption). Second, the allocation of transformative offensive slack funds long-term business evolution (strategic renewal).

Through this theoretical framework presented without visual barriers, this study posits that financial slack serves as the fuel, while dynamic capabilities act as the engine that determines the direction and efficiency of that energy conversion. It is this procedural interdependence that underpins the formulation of the conceptual model and the development of propositions in the concluding section of this chapter.

The Theory of Slack Resources

Taxonomy and Characteristics of Slack

In the organizational theory literature, the concept of slack resources was first introduced to describe the existence of internal organizational resources that exceed the minimum amount required to maintain the company's routine operations (Nohria & Gulati, 1997). Bourgeois & Singh (1983) define organizational slack as a cushion of actual or potential resources that enables an organization to successfully adapt to internal pressures for change or strategic adjustments, as well as facilitate external adaptation to environmental changes. The presence of slack reflects operational flexibility; it functions as a buffer that isolates the company's core functions from unpredictable fluctuations in the external environment.

To operationalize this concept, Bourgeois & Singh (1983) and further elaborated by George (2005), categorize slack based on its level of discretion and liquidity into three main taxonomies:

1. Available Slack: These are highly liquid financial resources not yet tied to any operational commitments (Bourgeois & Singh, 1983). Key indicators include cash surpluses, retained earnings, or short-term deposits. Because it offers the highest level of managerial discretion, decision-makers can deploy these funds instantly without the need for internal restructuring.
2. Recoverable Slack: Refers to resources currently embedded in an organization's operational costs but that can be reclaimed or made more efficient through restructuring (George, 2005). Examples include excessive administrative costs, idle machine capacity, or logistical inefficiencies. This type of slack takes time to unlock because managers must first implement procedural improvements.
3. Potential Slack: Refers to an organization's capacity to generate additional capital from the external environment when needed (Voss et al., 2008). This is reflected in a company's ability to borrow money (unused credit lines) or inject new equity based on the company's reputation or creditworthiness in the eyes of financial institutions.

The Traditional Role of Financial Slack as a Shock Absorber

In traditional strategic management literature, the primary focus of environmental shock analysis is on financial slack (a combination of available and potential slack) because cash is the most flexible form of capital (George, 2005). During macroeconomic crises, financial slack is widely recognized as the primary defense mechanism or shock absorber (Beliaeva et al., 2020). When operating revenue drops drastically due to a crisis, the existence of these reserve funds prevents technical insolvency by ensuring the company remains able to meet its short-term obligations, such as paying suppliers, rent, and core employee salaries.

Furthermore, previous quantitative studies have demonstrated that high financial slack acts as a shield against capital market imperfections (Carnes et al., 2017). When a crisis strikes, banks and financial institutions typically tighten liquidity and raise interest rates drastically (due to

increased default risk), making external financing extremely expensive or even impossible for companies to access. In this crisis-induced capital scarcity scenario, companies with strong internal reserves can finance their operations independently (self-financing). These reserves buy critical time for executives to think clearly, analyze the market, and formulate a response strategy, without being pressured by daily liquidity panic (Voss et al., 2008). However, this traditional role leaves room for conceptual debate: most established literature treats this shock-absorbing function passively and homogeneously, as if shock absorption occurs automatically simply by letting the cash sit in the bank. It is this static view that creates an opening for this research to address the context of SMEs.

Reconceptualization: Financial Slack as an Instrument of Dynamic Capability in MSMEs

The Liability of Smallness and Characteristics of MSME Slack

When the concept of financial slack is applied to Micro, Small, and Medium Enterprises (MSMEs), the theoretical assumptions developed based on observations of large corporations encounter significant structural anomalies. The existential characteristics of MSMEs are fundamentally shaped by what is referred to in the literature as the “liability of smallness” (Brinckmann et al., 2011; Ribeiro & Nakano, 2026). These limitations include chronic capital constraints, lack of direct access to open capital markets, high dependence on a single product line, and minimal institutional formalities (Tan, 2022). Consequently, financial slack in MSMEs rarely takes the form of massive retained earnings or liquid investment portfolios managed by a dedicated finance department. Conversely, slack in this context is extremely scarce, fluid, and often directly intertwined with the business owner’s personal finances (Jifri et al., 2016). The inherent financial capital constraints associated with the “liability of smallness” alter the functional nature of the reserve funds themselves. In large corporations, excessively high financial slack is often criticized by Agency Theory as a form of managerial inefficiency or waste of assets that should be returned to shareholders (Shaikh et al., 2018). However, for MSMEs, reserve funds are not a luxury that leads to wastefulness, but rather the fine line that separates survival from liquidation (Bradley et al., 2011).

Furthermore, due to structural constraints on obtaining new bank loans amid a crisis—resulting from information asymmetry and the lack of adequate collateral—SMEs must rely on every available cash unit with a far greater sense of urgency. Therefore, traditional approaches that measure slack using static year-end accounting ratios (such as the current ratio) become invalid. In small firms, the practical utility of financial slack is not determined by mathematical measures recorded in past financial statements, but rather by the availability and operational flexibility to deploy it instantly when exogenous shocks hit the market.

The Cognitive Micro-Foundations of Owner-Managers in the Orchestration of Slack

Because SMEs are characterized by centralized and flat organizational structures, the primary locus of all strategic decision-making rests entirely with the owner-managers (Barreto, 2010). This governance reality demands a reconceptualization of financial slack from merely a static capital asset (the RBV perspective) into an instrument driven by managerial cognitive micro-foundations (the DCV perspective) (Helfat & Martin, 2015). Under the conditions of extreme ambiguity that accompany a crisis, reserve funds cannot be deployed or allocated on their own; the effectiveness of their deployment is a direct function of the owner-managers’ cognitive capacity, risk perception, and subjective interpretation (Beliaeva et al., 2020; Felin et al., 2012).

Managerial cognitive capabilities, which include selective attention, problem solving, and sociocognitive reasoning (Helfat & Peteraf, 2015), act as a lens that determines how financial slack is assessed and deployed. Two SME owner-managers with exactly the same amount of cash reserves may take opposite actions based on their cognitive maps. An owner with a high level of risk aversion and a defensive cognitive orientation will treat financial slack restrictively, freezing those funds solely to extend the operational runway of routine activities that are actually no longer relevant to the crisis conditions (Bensouda & Benali, 2022; Tan, 2022). Conversely, owners with high cognitive agility and entrepreneurial alertness will view financial slack as strategic liquid capital that gives

them the courage to take risks, fund experimentation with new business models, or execute strategic pivots to capture new opportunities arising from disruption.

Processual Framework: Orchestrating Slack through Teece' s Three Dynamic Pillars

To understand how latent financial assets are transformed into tangible resilience outcomes, the utilization of financial slack must be mapped as a behavioral process that unfolds through organizational meta-routines. Adopting the tripartite taxonomy from (Teece, 2007), this section outlines how financial slack is orchestrated by SME owner-managers through three sequential procedural stages: sensing, seizing, and transforming.

Environmental Monitoring (Sensing): Assessing Capacity and Mapping Threats

The first stage in the orchestration of reserve resources is sensing, which in this context is defined as the ability of SME owner-managers to scan, identify, and interpret the severity of external shocks while simultaneously conducting an internal assessment of their financial resilience (Barreto, 2010; Teece, 2007). When an exogenous crisis strikes, the sensing activities of MSMEs rely heavily on the personal cognition of the owners due to the absence of a formal market intelligence department (Helfat & Peteraf, 2015). Owner-managers must be able to construct an accurate understanding of how quickly market volatility will deplete their operating cash flow.

In this pillar, financial slack functions as a “cognitive window.” When owner-managers realize that the company has sufficient available slack (reserve funds), the psychological pressure caused by the crisis can be mitigated (Teece, 2014). This financial calm allows owners to engage in objective and in-depth sensing, rather than getting caught up in short-term tactical panic. Owner-managers can assess whether the market disruption is temporary or structural. Conversely, in SMEs with very low slack, sensing activities are often distorted; managerial attention is entirely consumed by daily liquidity concerns, causing the company to fail to detect new opportunities or long-term shifts in consumer preferences emerging amid the crisis (Jifri et al., 2016; Tan, 2022).

Opportunity Execution and Resource Mobilization (Seizing): Strategic Betting Under Ambiguity

Once threats have been mapped and new opportunities identified, companies must move to the seizing stage, which involves rapidly mobilizing resources to execute a strategic response (Teece, 2007). In times of crisis, the seizing stage involves crucial decisions regarding capital allocation: whether financial slack will be deployed to fund conventional defensive operations or allocated to high-risk strategic bets (Voss et al., 2008). This is where financial slack acts as the primary determinant of an SME' s seizing capacity.

Owner-managers who have high managerial discretion over their financial slack can execute investment decisions without corporate bureaucratic hurdles (George, 2005). If the sensing process indicates the need for radical change, reserve funds will be aggressively deployed during the seizing stage to secure new assets, fund rapid adaptive product development, or secure safer alternative supply chains (Sirmon et al., 2011). However, without sharp seizing capabilities on the part of the owners, holding large reserve funds actually risks mismanagement. Companies may make allocation errors by depleting cash to maintain products or markets that are structurally dead due to the crisis.

Organizational Reconfiguration and Transformation (Transforming): Financing Strategic Renewal

The final and most critical stage of dynamic capabilities is transforming or reconfiguration that is, an organization' s ability to realign its structure, assets, and internal routines to make them compatible with the post-crisis environment (Teece, 2007, 2014). Transformation is the phase in which SMEs permanently pivot their business models. However, organizational restructuring and the adoption of new capabilities—such as migrating from physical sales to a digital ecosystem or a complete overhaul of logistics flows—require significant investment costs (Ambrosini & Bowman, 2009).

In this phase, financial slack acts as the “fuel” that funds the entire structural transformation process (Sirmon et al., 2007). The transformation process often triggers a decline in efficiency or short-term operational losses while new routines are being tested. Without financial slack acting as an error-tolerance cushion, this strategic experimentation would immediately threaten the company’s solvency, forcing owners to halt the transformation process before it yields results (Bradley et al., 2011). The ability of SMEs to emerge from a crisis as a new, more competitive entity—rather than merely surviving in their fragile original form—depends heavily on how consistently financial slack can fund, validate, and institutionalize these new routines during the ongoing transformation phase.

Strategic Outcomes of MSME Resilience

In reviewing the literature on organizational resilience, there is a theoretical tendency to equate corporate survival with strategic recovery (Linnenluecke, 2017). To develop a more granular understanding, this study argues that resilience is not a single, homogeneous construct. Instead, when SMEs face disruptive exogenous shocks, the manifestation of dynamic capabilities that orchestrate financial slack yields two strategic output dimensions that are conceptually and operationally distinct: short-term shock absorption and long-term structural adaptation mechanisms (strategic renewal) (Hamzah, 2025; Herbane, 2010).

Short-Term Shock Absorption

Short-term shock absorption refers to a firm’s defensive or tactical capacity to withstand the immediate impact of a crisis without suffering structural collapse or technical insolvency (Beliaeva et al., 2020). The primary focus of this dimension is operational stability, current liquidity, and the survival of the company’s core systems (tactical survival). When market revenue plummets drastically within days due to macroeconomic shocks, shock absorption acts as a mechanical buffer.

In this phase, the deployment of financial slack (specifically available slack in the form of cash) is directed entirely toward defensive and protective purposes (Voss et al., 2008). Reserve funds are used to pay off maturing trade debts, cover fixed rental costs, and retain key talent or employees to prevent layoffs that could cripple the organization’s core capabilities (Latham & Braun, 2011). A key characteristic of shock absorption is its tendency to maintain the status quo; companies strive to preserve their original form, routines, and business model in the hope that the crisis storm will soon pass and the market will return to its original equilibrium (Ribeiro & Nakano, 2026).

Long-Term Structural Adaptation Mechanisms (Adaptation Mechanisms / Strategic Renewal)

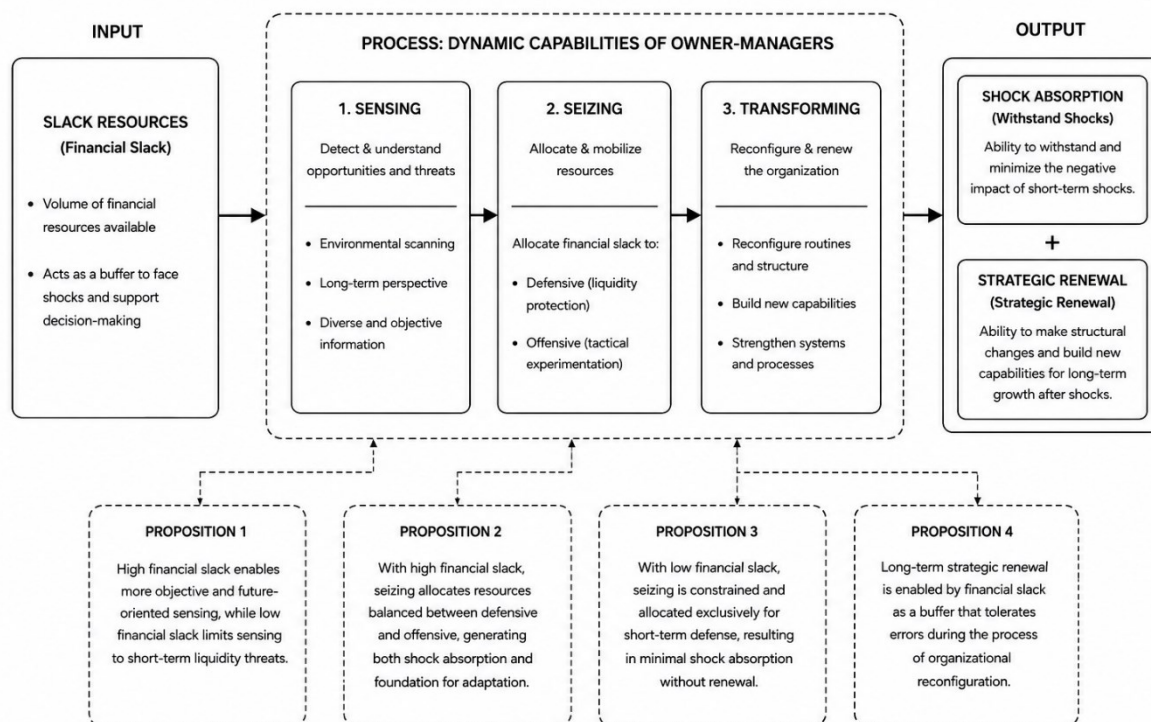
Fundamentally different from shock absorption, the mechanism of long-term structural adaptation or strategic renewal represents the offensive and transformative capacity of organizational resilience (Herbane, 2010; Teece, 2007). This dimension does not aim to return the company to its original form or routines (bouncing back). Instead, structural adaptation focuses on developing the capacity to evolve, transform, and grow into a new entity that is strategically far more compatible with the realities of the post-crisis market landscape (bouncing forward) (Duchek, 2020).

In this transformative dimension, financial slack is no longer treated as a shield protecting routine costs, but is orchestrated through seizing and transforming capabilities as internal venture capital to fund aggressive strategic experimentation (Sirmon et al., 2011). Reserve funds are allocated to finance radical business model pivots, adopt and integrate new digital technology infrastructure, explore substitute product lines, or acquire new market niches abandoned by competitors that collapsed during the crisis (Carnes et al., 2017). Through structural adaptation mechanisms, crises are no longer viewed merely as existential threats, but rather as a form of creative destruction that opens up opportunities for strategic renewal.

Conceptual Model and Development of Propositions

Based on the overall theoretical integration above, the following presents a visualization of a comprehensive conceptual model that maps how slack resources are orchestrated by the dynamic capabilities of owner-managers to produce specific organizational resilience outcomes.

Figure 1 Slack Resource Orchestration Model



Source: The author's theoretical synthesis and conceptualization (2026).

To guide the course of this quantitative empirical investigation and qualitative multi-case study, this section derives a series of operational theoretical propositions:

- Proposition 1: A high level of financial slack facilitates a more objective and future-oriented sensing capability among owner-managers of SMEs, whereas low financial slack limits sensing strictly to the identification of short-term liquidity threats.
- Proposition 2: Under conditions of high financial slack, seizing capabilities are balanced between defensive allocation (maintaining liquidity) and offensive allocation (tactical experimentation), which simultaneously result in shock absorption and a foundation for adaptation.
- Proposition 3: Under conditions of low financial slack, seizing capabilities are structurally constrained and thus allocated exclusively to short-term tactical defense, limiting organizational resilience to only minimal shock absorption without room for renewal.
- Proposition 4: The success of long-term structural transformation (strategic renewal) in SMEs post-shock is determined by financial slack capacity, which functions as a buffer for error tolerance during the process of reconfiguring organizational routines.

METHODS

This study employs a qualitative approach using an exploratory-inductive multi-case study design to test and explore the proposed theoretical propositions (Yin, 2018). A qualitative approach was chosen because the process of orchestrating financial slack and the dynamic capabilities of owner-managers are highly contextual and involve behavioral dynamics that cannot be captured by linear quantitative metrics (Patton, 2014). In line with the tradition of Eisenhardt (1989), a multi-

case design was used to facilitate theoretical replication through cross-case analysis. The unit of analysis focused on SMEs directly controlled by active owner-managers that experienced a revenue decline of at least 40% due to macroeconomic shocks. Using purposive sampling based on the extreme-case strategy, informants were categorized into two contrasting clusters: SMEs with high financial slack and SMEs with very low financial slack, to sharply contrast variations in adaptive responses (Corbin & Strauss, 2014).

Build a robust chain of evidence, data collection was conducted using source triangulation (Yin, 2018). Primary data was collected through in-depth, semi-structured interviews with owner-managers as key informants, and then triangulated with secondary data in the form of internal cash flow reports, planning documents, daily operational records, and direct field observations. This data collection process was conducted iteratively until theoretical saturation was reached a point at which no new codes or conceptual variations emerged (Corbin & Strauss, 2014). Interview transcripts were then analyzed inductively and systematically using Gioia's Thematic Analysis Framework (Gioia Methodology) through three coding stages: first-order coding (1st-order concepts) to capture informants' raw perspectives, second-order themes to abstract the data into theoretical categories, and aggregate dimensions to synthesize the relationship between reserve capital orchestration and organizational resilience outcomes (Gioia et al., 2013).

To ensure scientific quality and counteract researcher subjectivity, data validity testing was based on criteria of trustworthiness (Lincoln & Guba, 1985). The aspect of credibility is ensured through member checking to confirm that the interpretation of the transcripts aligns with the informants' views, while transferability is achieved through the presentation of a rich and in-depth contextual description (thick description) of the internal characteristics of MSMEs. Furthermore, the aspect of dependability is ensured through the provision of a transparent audit trail that chronologically documents field notes and coding schemes. Finally, confirmability is realized through the researcher's reflexivity as well as peer debriefing sessions with strategic management experts to ensure that all conclusions are derived purely from field data, free from the researcher's personal biases.

RESULT

Cases and Polar Sample Transparency

SBefore presenting the dynamics of resource conversion, this empirical investigation relies on an in-depth tracking of six (6) MSME case units strictly grouped into two contrasting polar clusters. The operational demographic profiles and objective financial conditions at the onset of the crisis are presented in detail in Table 1.

The demographic and contextual data summarized in Table 1 confirm that the methodological eligibility criteria for the extreme-case sampling strategy within the tradition of inductive multi-case studies (Eisenhardt, 1989). These six purposively selected units of analysis represent a homogeneous industrial spectrum in terms of vulnerability to market shocks, yet exhibit starkly contrasting polarities regarding their capacity for reserve capital endowment. All case clusters are dominated by business entities that have passed the critical phase of early growth (with operational ages ranging from 5 to 11 years), ensuring that the organizational routines within them have become institutionalized and are not merely temporary operations. This equivalence in business scale (reflected in the range of workforce size from 14 to 42 employees) minimizes firm-size bias, so that the variations in outcomes observed at the end of the observation phase can be attributed purely to the internal dynamics of resource orchestration processes, rather than to macroeconomic scale advantages.

The fundamental divergence that anchors this research analysis lies in the initial financial slack conditions when the crisis struck (t_0). The business units in Cluster A (Cases 1, 2, and 3) entered the disruption phase with a very secure liquidity position, derived from both accumulated internal retained earnings and ready access to external financing instruments. In contrast, business units in Cluster B (Cases 4, 5, and 6) were in a state of acute financial vulnerability, where their daily operations were heavily reliant on a suffocating cycle of short-term working capital without a

residual cash safety net. Longitudinal mapping through the post-crisis phase (t_1) visually illustrates a radical polarization in organizational resilience outcomes. While all cases in Cluster B experienced vulnerable operational stagnation (stagnant survival) or even a contraction in business scale, all cases in Cluster A succeeded in leaping beyond the normal recovery point to achieve strategic renewal and bouncing forward. It is this stark empirical contrast that underpins the validity of the entire subsequent qualitative evidence chain for in-depth exploration.

Table 1 Operational Characteristics and Financial Context of Case Units

Case Code	Industrial Sector	Duration of Operation	Number of Employees	Initial Financial Slack Capacity (Crisis t_0)	Final Sustainability Status (Post-Crisis t_1)
Case 1 (Cluster A)	Food & Beverage Manufacturing	8 Years	35	High (6-month operating cash reserves)	Bouncing Forward (Stable New Business Model)
Case 2 (Cluster A)	Apparel Retail	6 Years	18	High (Access to flexible credit lines & liquid assets)	Strategic Renewal (Successful Market Diversification)
Case 3 (Cluster A)	Crafts & Decor	11 Years	42	High (Significant undistributed retained earnings)	Strategic Renewal (Exploration of New Export Channels)
Case 4 (Cluster B)	Distribution Services	5 Years	22	Very Low (Negative cash flow, maturing debt)	Stagnant Survival (Minimal Operations, Vulnerable)
Case 5 (Cluster B)	Wholesale Food & Beverage	7 Years	14	Very Low (Cash reserves < 2 weeks)	Stagnant Survival (Shrinking Business Scale)
Case 6 (Cluster B)	Textile Components	5 Years	29	Very Low (Reliance on daily capital)	Stagnant Survival (Trapped in the Inertia of the Old Sector)

Source: Consolidated field activity logs and internal SME documents (2026).

Codification Track Record Based on the Gioia Framework

To ensure the scientific rigor of data processing, all verbal evidence extracted from the semi-structured interview transcripts was codified in stages. Table 2 shows how first-order concepts crystallized into macro-dimensions that tested all propositions.

The data structure presented in Table 2 illustrates a transparent analytical reconstruction of how raw inductive concepts from the field are systematically transformed into a macro-theoretical framework (Gioia et al., 2013). This codification process moves from the highly contextual level of informant interpretation (first-order concepts) toward a higher level of theoretical abstraction (second-order themes), ultimately crystallizing into three main aggregate dimensions that represent the pillars of dynamic capabilities (Teece, 2007). The arrangement of vertically contrasting code clusters within this matrix demonstrates that the conclusions drawn in this study are not based on the researcher's subjective speculation but are grounded in strong empirical evidence with a clear, traceable audit trail (Lincoln & Guba, 1985).

At the operational level, the verbal articulations gathered from key informants indicate a close cognitive and structural causal relationship between the possession of financial slack and the

capacity to execute dynamic capabilities. For example, the coding clusters within the sensing pillar reveal that sociocognitive calm is not a standalone personality trait, but rather a direct result of the liberation of mental capacity enabled by the availability of long-term cash reserves. Conversely, when financial slack reaches a critical point, managerial attention is mechanically distorted into reactive liquidity myopia. These consistent and contrasting coding patterns continue to flow linearly through the seizing and transforming pillars. Thus, this data structure not only serves as a categorization tool but acts as the primary logical foundation validating the entire chain of evidence for the propositions in the subsequent narrative analysis section.

Table 2 Data Structure of Thematic Analysis

First-Order Concepts	Second-Order Themes	Macro Aggregate Dimensions
• “We have enough cash to last six months, so we can keep a cool head while mapping shifts in consumer spending behavior” (Case 1).	Sociocognitive calmness and long-term environmental scanning orientation.	Monitoring (Sensing) Capabilities
• “We analyze digital search trend data objectively without panicking” (Case 3).	Crisis liquidity myopia and reactive managerial attention distortion.	Monitoring (Sensing) Capabilities
• “All my thoughts are consumed by whether I’ll be able to pay off my debt tomorrow” (Case 4).	Ambidextrous resource allocation.	Capturing (Seizing) Capabilities
• “There’s no time to look for new opportunities; we’re too busy cutting suffocating daily expenses” (Case 5).	Structural barriers to resource allocation and tactical defense concentration.	Capturing (Seizing) Capabilities
• “We set aside emergency funds for core operations, and the rest is immediately allocated to purchasing an online system” (Case 2).	Utilization of surplus capital as an error-tolerance cushion.	Transforming Capabilities
• “Capital was allocated to two purposes: to stay afloat and to fund research on new products” (Case 1).	Paralysis of routine reconfiguration and the trap of operational inertia.	Transforming Capabilities

Source: Qualitative evidence chain constructed by the author (2026).

Detailed Results of Thematic Analysis

Multi-case-based inductive analysis reveals systematic and contrasting patterns of behavioral variation between SMEs in Cluster A (High Financial Slack) and Cluster B (Low Financial Slack). To present transparent and accountable empirical evidence in accordance with the reporting standards of high-reputation qualitative studies (Gioia et al., 2013), A structured visualization of the chain of evidence for both clusters is presented in Table 3.

In the monitoring (sensing) pillar, field data indicate that the initial volume of financial slack dictates the sociocognitive orientation and time horizon of owner-managers in mapping the crisis. In Cluster A, the availability of adequate liquidity buffers proved to free up the mental capacity of owner-managers from the daily psychological pressure caused by declining revenue. This condition allows them to conduct structured environmental scanning to detect shifts in consumer behavior and new market niches. Conversely, owner-managers in Cluster B experience severe cognitive constraints due to the absence of reserve funds. Their sensing activities are radically distorted and limited solely to mapping short-term liquidity threats. The urgent need to meet daily financial obligations triggers cognitive myopia, causing them to fail to recognize emerging signals of recovery opportunities in the market. These empirical findings provide concrete confirmation of Proposition 1.

Table 3 Matrix of Empirical Findings Comparing Conversion Paths of Variables Across Clusters

Processual Dimensions	Kluster A: High Financial Slack	Kluster B: Low Financial Slack
Monitoring Pillar (Sensing)	Cluster A: High Financial Slack Focus: Long-term environmental scanning. Verbal Evidence: "Since our cash reserves are secure for the next 6 months, I have time to observe the direction of digital market trends..." (Informant 1). Characteristics: Objective, data-driven, and adaptive.	Focus: Crisis-driven liquidity myopia. Verbal Evidence: "I didn't have time to think about innovation; all my energy was spent just trying to secure a loan to cover tomorrow's expenses..." (Informant 5). Characteristics: Subjective, reactive, and emotional.
Capture Pillar (Seizing)	Allocation: Ambidextrous allocation (balanced defensive-offensive). Verbal Evidence: "We secured employee salaries, then used the remaining reserve funds to buy new machinery for the pivot." (Informant 3). Action: Dual funding for both survival and tactical experimentation.	Allocation: Purely Restrictive-Defensive (survival allocation). Verbal Evidence: "All remaining capital was withdrawn to pay overdue supplier bills; there was nothing left for anything else." (Informant 4). Action: Exclusive mobilization of capital solely to prevent operational bankruptcy.
Transformation Pillar (Transforming)	Mechanism: Reconfiguration with an error-tolerance cushion. Verbal Evidence: "The first month of this new business model resulted in a loss, but our remaining cash reserves were able to cover it until we stabilized." (Informant 2). Outcome: Strategic Renewal (Bouncing Forward).	Mechanism: Structural paralysis due to operational inertia. Verbal Evidence: "We know the old sales methods no longer work, but we don't have the money to change the store system." (Informant 6). Outcome: Minimal shock absorption without adaptation (Stagnant Survival).

Source: Field data analyzed and processed based on interview transcripts and internal case documents (2026).

Upon entering the "seizing" phase, the data reveals a sharp divergence in capital allocation decisions between the two clusters. Owner-managers in Cluster A adopt a balanced (ambidextrous) allocation strategy; they simultaneously distribute financial slack to protect core liquidity (defensive) while funding experimentation with new business models (offensive). The result of this active orchestration is the organization's ability to achieve dual outcomes: absorbing the impact of shocks (shock absorption) while simultaneously building a foundation for adaptation. This phenomenon stands in stark contrast to Cluster B, where their process-level seizing capabilities suffer from structural paralysis. All resource mobilization decisions in Cluster B are exclusively directed toward tactical survival measures. Consequently, offensive capital allocation becomes negligible, causing the organizational resilience output in Cluster B to stagnate at minimal shock absorption to avoid immediate bankruptcy. This data pattern directly validates Proposition 2 and Proposition 3.

In the final phase of transformation, the success of organizational reconstruction toward strategic renewal is absolutely determined by the availability of residual capacity from financial slack. Empirical evidence from Cluster A indicates that residual reserve funds effectively serve as an error-tolerance cushion. This residual liquid capital compensates for the inevitable financial losses

incurred during the transition phase—which involves overhauling old routines, adopting digital technology, and restructuring costs—until a new equilibrium is reached. Conversely, all analysis units in Cluster B failed to execute long-term structural transformation. Although they were able to survive the initial shock, the absence of residual reserve capital forced them to remain trapped in the inertia of outdated routines and lose market relevance. These findings fully confirm Proposition 4, demonstrating that the availability of financial slack acts as a material catalyst determining the success of an organization's leap toward strategic renewal.

DISCUSSION

Managerial Cognition and Attention Distortions in Crisis Detection (Sensing)

The cognitive dynamics that distinguish owner-managers in Cluster A from those in Cluster B have sparked a profound theoretical debate regarding how strategic decisions are made under extreme pressure. In the conventional dynamic capabilities literature, sensing activities are often portrayed as a mechanistic organizational process—an automatic market-scanning routine that operates alongside the availability of analytical tools (Haase, 2022; Teece, 2007). However, the empirical findings of this multi-case study challenge that linear assumption. Our findings indicate that sensing capabilities at the micro, small, and medium enterprise (MSME) level are closely tied to the sociocognitive conditions of individual owner-managers, which are fundamentally shaped by the availability of financial slack.

When the storm of crisis struck, owner-managers in Cluster A (Cases 1, 2, and 3) exhibited what we term strategic mindfulness. The availability of reserve funds that shielded their operations for over six months acted as psychological insulation (Boostani et al., 2026). Thanks to this financial protection, the cognitive bandwidth of decision-makers is not eroded by daily existential anxiety. They are able to view market turbulence not as a death knell for the business, but as a redrawing of the competitive landscape (Wenzel et al., 2021). From a sociocognitive perspective, this calm validates resource-based attention theory, where managerial focus can be allocated to long-term external scanning, detecting structural shifts in consumer preferences, and identifying exploitable weaknesses in competitors (Carayannis et al., 2025; Teece, 2007).

This situation stands in stark contrast to the bleak picture in Cluster B (Cases 4, 5, and 6). The lack of financial slack triggers a phenomenon known as cognitive myopia or acute cognitive paralysis (Li et al., 2022; Shepherd & Williams, 2020). The managerial attention of owner-managers in this cluster is forcibly constrained by daily liquidity demands. When a business faces the risk of operational shutdown within weeks or even days, the human cognitive architecture naturally shifts into a primitive survival mode (fight-or-flight strategy). Owner-managers become trapped in what cognitive psychology literature refers to as a scarcity mindset (Wang et al., 2026). Their mental energy is completely drained by formulating immediate defensive tactics: delaying vendor payments, cutting utility costs, or seeking high-interest short-term loans (Kim, 2025). The impact on organizational capabilities is highly destructive. Sensing activities in Cluster B are no longer objective or adaptive; they have been distorted into instruments for seeking emergency liquidity. They become blind to new market opportunities emerging amid the crisis because their opportunity-seeking radar is obscured by the fog of daily financial panic. Empirical confirmation of Proposition 1 expands the theoretical boundaries of the Resource-Based View (RBV) by affirming that financial slack is not merely a static asset for value preservation, but rather a cognitive facilitator that determines the sharpness or dullness of a company's strategic vision in detecting the future.

Resource Orchestration and Tactical Ambidexterity (Seizing)

The behavioral divergence observed during the opportunity-seizing phase makes a significant conceptual contribution to Resource Orchestration Theory (Sirmon et al., 2011). The greatest challenge an organization faces during a crisis is not merely having resources, but rather how to structure, bundle, and deploy those resources amid high uncertainty. The empirical narrative of this study demonstrates how differences in the volume of financial slack give rise to two

contrasting forms of orchestration: ambidextrous allocation in Cluster A and survival allocation in Cluster B.

In Cluster A, owner-managers demonstrate high orchestration proficiency through the execution of ambidextrous strategies (Andrade et al., 2024). With abundant reserve capital, they are not faced with a rigid dichotomy between survival (exploitation) and innovation (exploration) (Lyu et al., 2026). They can pursue both simultaneously. Part of the financial slack is locked away as a safety net to sustain core operations and maintain employee morale through timely salary payments (Juergensen et al., 2020). At the same time, a portion of the remaining reserve funds is allocated to high-risk but potentially high-reward experiments, such as adopting new digital platforms or conducting small-scale product pivots.

This balanced orchestration yields robust seizing capabilities. When markets become volatile, these small experiments funded by financial slack serve as a new anchor for the company (Hong & Shin, 2025). The organization successfully absorbs initial shocks without losing momentum to adapt. This success demonstrates that financial slack acts as the essential fuel that lubricates the wheels of tactical innovation during critical moments (Alzoraiki et al., 2024; Beliaeva et al., 2020). Conversely, the seizing capabilities within Cluster B suffer from deep structural paralysis. Without financial breathing room, the concept of balanced resource allocation becomes an unattainable luxury (Amoah et al., 2021). All remaining capital—or even the minimal daily cash flow—is mechanically sucked into the vortex of short-term tactical defense for basic survival (pure survival). Resource mobilization decisions in Cases 4, 5, and 6 are entirely reactive and defensive in nature. There is no remaining financial leeway to fund innovation, purchase new technology, or even conduct market trials (Öri et al., 2024). As a result, the resilience output of organizations in Cluster B stagnates at a minimal level of shock absorption. They may have managed to avoid immediate bankruptcy on that day, but they did so at the expense of their future. Empirical evidence supporting Propositions 2 and 3 confirms that without financial slack, seizing capabilities are reduced to mere reactive crisis management, which locks the company into a fragile defensive position and accelerates strategic obsolescence in the face of new market realities (Clauss et al., 2022).

Strategic Renewal vs. Operational Inertia (Transforming)

The transformation phase (transforming) is the final test determining whether an organization will emerge from the crisis as a renewed winner (bouncing forward) or merely a survivor awaiting its demise (stagnant survival) (Koronis & Ponis, 2018). Qualitative data from this study clearly demonstrate that residual financial slack acts as the primary catalyst distinguishing these two fates, thereby validating and deepening the scope of Proposition 4. For SMEs in Cluster A, the success of structural transformation and the achievement of strategic renewal is made possible by the function of financial slack as an error-tolerance cushion (Mount et al., 2024; Raoofian et al., 2025). Changing a business model, overhauling organizational routines that have been in place for years, or restructuring costs is not a smooth, risk-free process; it is always accompanied by initial setbacks and financial losses during the transition period (Bocken & Geradts, 2020). When Case 3 expanded into new export channels or Case 1 changed its manufacturing product line, they experienced periods of deficit in the early months. This is where the true advantage of residual financial slack lies. This reserve injects a lifeline of financial breathing room that covers these transitional losses until the new cost structure and business model reach a point of stability and become institutionalized within the organization. Slack grants the company permission to make mistakes and learn from them without the risk of going under (Sasaki, 2025).

A tragic scenario is evident in Cluster B. Their inability to undertake long-term transformation is not due to indifference on the part of their owner-managers. Field data indicates they are fully aware that their old sales methods are no longer viable and incompatible with the post-shock market landscape. However, this strategic awareness hits a hard wall of capital constraints. The transformation process requires substantial material investment for asset reconfiguration, staff retraining, and the adoption of new operating systems (Akanbi, 2023). Because all their financial reserves had been completely depleted during the previous survival phase, Cluster B found itself trapped in the inertia of outdated routines. They experience what is known as a rigidity trap; they are forced by their financial circumstances to continue unprofitable business

practices simply to keep their shop doors open for the day. They managed to survive the initial crisis (survived the shock), but remain trapped in prolonged structural fragility. This finding makes a strong theoretical contribution to the discourse on dynamic capabilities by reinforcing the theoretical position of Resource Orchestration Theory: financial slack is not a passive, static figure on a company's balance sheet. It is material potential energy that determines whether an organization's dynamic capabilities can transform into a strategic leap forward or instead dissipate into operational inertia leading to the slow death of the business.

Theoretical and Managerial Implications

Theoretically, the integration of Teece (2007) dynamic capabilities framework with Resource Orchestration Theory in this study offers a new lens through which to view the resilience of MSMEs. Until now, there has been a tendency to separate capability-based approaches (which emphasize processes and routines) from resource-based approaches (which emphasize asset ownership). This research demonstrates that these two paradigms are closely intertwined: financial slack serves as a material prerequisite that determines the operational effectiveness of dynamic capabilities themselves. Without slack, the routines of sensing, seizing, and transforming lose their executional power and become paralyzed under crisis pressure. For SME practitioners and owner-managers, the findings of this study convey a harsh yet crucial managerial message. In a business world increasingly vulnerable to macroeconomic shocks, a financial management paradigm that pursues pure efficiency without leaving room for cash reserves (lean operations) is a highly dangerous strategy. Owner-managers must treat financial slack not as an idle cost that reduces short-term profitability, but as a strategic investment to secure cognitive capacity, time for exploration, and a safety net for future transformation. Maintaining a high level of liquidity is the first line of defense that ensures that when the next crisis hits, organizations will not merely survive in a state of fragility, but will have the material capacity to leap forward and seize the future.

CONCLUSION

This exploratory-inductive multi-case study provides concrete answers to the puzzle of why some MSMEs are able to make a strategic leap forward (bouncing forward) in the midst of a crisis, while others remain trapped in vulnerable operational stagnation (stagnant survival). Through in-depth tracking of two contrasting polar clusters, this research yields two core conclusions. First, financial slack is not merely a static asset that protects value, but a cognitive facilitator that dictates the sharpness of the owner-managers' monitoring radar (sensing). The availability of adequate reserve funds acts as a psychological buffer that frees decision-makers' cognitive bandwidth from daily existential anxiety. It is this sociocognitive calm that enables them to scan the environment objectively and detect new market niches. Conversely, the absence of reserve capital triggers a scarcity mindset and acute liquidity myopia. Managerial attention is entirely drained by addressing short-term financial obligations, causing them to fail to recognize signals of strategic recovery opportunities emerging in the market.

The success of organizational reconfiguration toward strategic renewal is determined entirely by the volume of residual financial slack, which serves as an error-tolerance cushion. The process of overhauling outdated routines and adopting new business models is always accompanied by the risk of failure and financial losses during the transition period. It is this residual liquid capital that compensates for these losses until the new operating system reaches a point of equilibrium. Conversely, business units that have exhausted their reserve funds from the early stages of the crisis will hit a wall of operational inertia. Although they are aware that the old ways are no longer relevant, the lack of residual capital forces them to remain trapped in outdated practices merely to keep the company afloat. This study demonstrates that dynamic capabilities (sensing, seizing, transforming) at the SME level can never function effectively without the material fuel of financial slack. For practitioners, maintaining a loose level of liquidity during normal times is not a form of cost inefficiency, but rather a crucial strategic investment to secure cognitive capacity, time for exploration, and a safety net for transformation when the storm of disruption strikes.

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