Measuring Dynamic Financial Resilience in SMEs: A Capabilities-Based Approach

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ABSTRACT

The interest in financial resilience intensified particularly in light of the COVID-19 pandemic, the undergoing military conflicts, rising interest rates, and other international or national-level disturbances. Despite increasing calls to measure and manage financial resilience (Linnenluecke, 2017), it lacks a clear and universally accepted definition (Saad et al., 2021) while its research on SMEs remains fragmented and underdeveloped (Supardi & Hadi, 2020), especially in SMEs context. Financial resilience is widely recognized as a multidimensional construct that cannot be captured by a single indicator (Salignac et al., 2019). However, existing approaches are largely static, relying on retrospective financial performance measures. While informative, these approaches provide limited insight into SMEs' preparedness for disruptions or their ability to respond to future crises. An emerging stream of research conceptualizes resilience as a set of dynamic capabilities that enable firms to cope with and adapt to disruptions (Rao et al., 2024). Applied to the financial domain, this perspective implies that financial resilience is shaped by firms' ability to mobilize and reconfigure capabilities related to attracting ans maintaining financing and investment as well as profitability, and liquidity management. However, the specific content of these financial management capabilities remains underexplored, and there is little agreement on which are most critical. This gap is particularly relevant in the SME context, where resource constraints and organizational characteristics may shape both the nature and effectiveness of these capabilities.

JEL Codes:

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