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Financial Reconfiguration Capacity under Economic Uncertainty: Toward a Middle-Range Theory of Adaptive Capital Allocation

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Abstract

Economic uncertainty can rapidly undermine the fit between firms' existing financial commitments and emerging economic requirements, yet financial flexibility research primarily explains the value of preserving financial room rather than how firms actively reorganize that room when capital configurations become misaligned. This conceptual paper develops Financial Reconfiguration Capacity (FRC) as a middle-range theory of adaptive capital allocation. Integrating insights from financial flexibility, strategic flexibility and real-options logic, dynamic capabilities, and resource orchestration, the paper specifies FRC as a repeatable firm-level capability for detecting capital misalignment and deliberately reorganizing financial resources. The proposed framework identifies four interdependent mechanisms: capital reprioritization, funding recomposition, financial resource redeployment, and temporal resynchronization. Together, these mechanisms enable firms to restore alignment between capital configurations and changing economic conditions. The theory shifts attention from possessing financial flexibility to exercising financial adaptability and explains why firms with comparable financial resources may respond differently to similar uncertainty. It also establishes a research agenda for operationalizing FRC, testing its boundary conditions, and examining its effects on adaptive capital allocation and organizational resilience.

Keywords

financial reconfiguration capacity; adaptive capital allocation; economic uncertainty; financial flexibility; dynamic capabilities; resource orchestration

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1. Introduction

Economic uncertainty increasingly shapes how firms determine where, when, and through which financing structures capital should be deployed. Changes in policy, financing conditions, market demand, geopolitical risk, and unexpected shocks can quickly alter the expected returns and risk profiles of existing investment commitments. Prior research has consistently shown that uncertainty affects corporate investment, liquidity policies, debt access, and precautionary financial behavior (Baker *et al.*, 2016; Gulen & Ion, 2016; Favara *et al.*, 2021). Recent evidence further indicates that firm-level exposure to disruptive events can materially influence financing and investment responses, while the effects are heterogeneous across firms depending on their financial position and organizational characteristics (Hassan *et al.*, 2023). These findings suggest that uncertainty should not be understood merely as an external condition that suppresses investment. It can also create a more fundamental problem: a financial configuration that was previously appropriate may become misaligned with emerging economic requirements.

The COVID-19 crisis offered a particularly visible illustration of this problem. Firms facing abrupt revenue disruptions rushed to secure liquidity and preserve financial capacity, generating what Acharya and Steffen (2020) described as a corporate “dash for cash.” De Vito and Gómez (2020) similarly documented the scale of potential liquidity shortages created by the sudden collapse in operating cash flows. Yet firms did not experience or respond to the crisis uniformly. Companies entering the shock with stronger liquidity positions and greater financial flexibility were generally better equipped to absorb the disruption (Ding *et al.*, 2021), while financial flexibility proved particularly valuable when revenues contracted sharply (Fahlenbrach *et al.*, 2021). The broader implication is that access to financial resources matters profoundly during uncertainty. However, access alone does not explain how firms decide which commitments to preserve, which projects to postpone, which resources to redeploy, or how financing structures should be altered as conditions evolve.

Corporate finance research has long emphasized the value of maintaining financial flexibility. Cash holdings can help constrained firms preserve investment capacity when external finance becomes costly or unavailable (Almeida *et al.*, 2004; Denis & Sibilkov, 2010). Spare debt capacity can similarly improve a firm's ability to exploit future investment opportunities (Marchica & Mura, 2010), while financial flexibility more generally creates value by allowing firms to respond to changing financing and investment conditions (Gamba & Triantis, 2008; Denis, 2011). Evidence from financial crises further demonstrates that flexible firms are better able to sustain investment and performance under adverse conditions (Arslan-Ayaydin *et al.*, 2014). This literature therefore provides a compelling explanation of why firms benefit from maintaining financial room to maneuver.

Nevertheless, financial flexibility primarily concerns the availability of financial maneuverability rather than the organizational process through which that maneuverability is transformed into an appropriate new configuration of capital. A firm may hold substantial cash, preserve debt capacity, or maintain access to credit and still allocate resources poorly if it cannot recognize that the relative value of existing commitments has changed. In this sense, the central problem under uncertainty is not only whether financial resources remain available, but whether firms possess the capability to deliberately reprioritize, recombine, redeploy, and resynchronize those resources.

Strategic management research offers useful foundations for addressing this unresolved issue. Dynamic capabilities theory argues that firms operating in changing environments must be able to integrate, build, and reconfigure internal and external competences rather than rely exclusively on existing resource positions (Teece *et al.*, 1997). Subsequent work emphasizes that dynamic capabilities involve identifiable organizational processes through which firms adapt their resource bases (Eisenhardt & Martin, 2000) and develop sensing,

seizing, and transforming capacities in response to environmental change (Teece, 2007). Resource orchestration research further explains how firms create value by structuring, bundling, and leveraging resources rather than merely possessing them (Sirmon *et al.*, 2007, 2011). Yet these perspectives typically conceptualize resources broadly and do not sufficiently specify how financial resources are reconfigured as an integrated organizational capability.

This paper addresses that theoretical gap by developing the concept of Financial Reconfiguration Capacity (FRC). FRC is defined as a firm-level dynamic capability through which an organization detects emerging capital misalignment and deliberately reprioritizes, recomposes, redeploys, and resynchronizes financial resources to restore alignment between its capital configuration and changing economic requirements. The proposed framework distinguishes FRC from financial flexibility, strategic flexibility, and real-options logic. Financial flexibility concerns the availability of financial room, while real-options reasoning emphasizes the value of preserving future choices under uncertainty (Adner & Levinthal, 2004; Trigeorgis & Reuer, 2017). FRC instead concerns the active alteration of an existing financial-resource configuration.

The paper therefore asks: How and under what conditions does financial reconfiguration capacity enable firms to achieve adaptive capital allocation under economic uncertainty? In answering this question, the paper makes three contributions. First, it extends financial flexibility research from resource availability toward resource reconfiguration. Second, it specifies financial-resource transformation as a distinct domain of dynamic capabilities and resource orchestration. Third, it develops a middle-range theory linking economic uncertainty, capital misalignment, financial reconfiguration capacity, and adaptive capital allocation, thereby explaining not merely whether firms possess financial flexibility, but how they convert that flexibility into adaptive financial action.

2. Theoretical Foundations

The theoretical foundation of Financial Reconfiguration Capacity (FRC) lies at the intersection of three established streams: financial flexibility, strategic flexibility and real-options logic, and dynamic capabilities and resource orchestration. Each explains an important aspect of organizational adaptation under uncertainty, but none fully accounts for how firms actively alter the configuration of financial resources when changing economic conditions reduce the suitability of existing capital commitments. Rather than treating these literatures as competing explanations, this section identifies their complementary insights and, more importantly, the theoretical space that remains between them.

2.1 Financial Flexibility: Availability Without Reconfiguration

The value of financial flexibility is rooted in the problem of financing constraints. When access to external capital is costly or restricted, firms may be unable to undertake otherwise valuable investments, making internally available financial resources strategically consequential (Fazzari *et al.*, 1988). This logic helps explain why firms preserve cash and other sources of financing capacity. Almeida *et al.* (2004), for example, show that financially constrained firms tend to save cash from incremental cash flows, reflecting the importance of liquidity when future financing needs cannot be met frictionlessly. Denis and Sibilkov (2010) further demonstrate that cash holdings can create value for constrained firms by enabling investment that might otherwise be forgone.

Financial flexibility extends this reasoning beyond cash holdings. Firms can preserve room for future action through liquidity reserves, unused borrowing capacity, access to external financing, and financial policies that protect investment capacity. Gamba and Triantis (2008) demonstrate that financial flexibility has value because firms dynamically interact financing,

investment, and cash policies over time. Similarly, Marchica and Mura (2010) show that firms maintaining spare debt capacity subsequently exhibit greater investment ability, while Denis (2011) conceptualizes corporate liquidity as an important component of firms' capacity to respond to future financing and investment requirements. Rapp *et al.* (2014) likewise connect the value of financial flexibility to corporate financial policy.

The importance of such flexibility becomes particularly visible during adverse shocks. Financial constraints during the global financial crisis produced real effects on corporate spending and investment (Campello *et al.*, 2010), while firms possessing financial flexibility were better positioned to sustain investment and performance during financial crises (Arslan-Ayaydin *et al.*, 2014). The COVID-19 shock offered an even sharper illustration: corporations rapidly sought liquidity as revenues became uncertain (Acharya & Steffen, 2020), and firms entering the crisis with greater financial flexibility experienced meaningful advantages when revenues suddenly contracted (Fahlenbrach *et al.*, 2021).

These studies establish a strong premise: financial room matters because it preserves a firm's capacity to act when financing conditions or investment opportunities change. Yet the same literature leaves an important process question comparatively underdeveloped. Possessing cash, debt capacity, or financing access does not specify how managers determine which commitments should be maintained, reduced, redirected, refinanced, accelerated, or postponed. Financial flexibility therefore primarily answers whether the firm retains financial room to act. It is less explicit about how the firm reconfigures that financial room once environmental conditions change. This distinction between resource availability and resource reconfiguration provides the first theoretical foundation for FRC.

2.2 Strategic Flexibility and Real-Options Logic: Preserving Choice

Strategic flexibility broadens the problem from financing capacity to organizational responsiveness. Sanchez (1995) conceptualizes strategic flexibility as an important basis for responding to changing competitive conditions, while Volberda (1996) emphasizes the need for organizational forms capable of remaining viable in hypercompetitive environments. Evidence from economic crisis contexts similarly indicates that strategic flexibility can strengthen organizational responses to environmental disruption (Grewal & Tansuhaj, 2001). Synthesizing this literature, Brozovic (2018) shows that strategic flexibility encompasses an organization's ability to respond to substantial environmental changes by modifying strategic courses of action.

Real-options reasoning provides a related but more specific logic. Under uncertainty and irreversibility, preserving choices can itself create value. Bowman and Hurry (1993) conceptualize organizational resources through an option lens, while Kogut and Kulatilaka (1994) demonstrate how operating flexibility can generate option value across multinational production networks. Subsequent work extends this reasoning to technology positioning (McGrath, 1997), strategic growth opportunities (Kulatilaka & Perotti, 1998), organizational capabilities (Kogut & Kulatilaka, 2001), and strategic management more broadly (Trigeorgis & Reuer, 2017).

This literature is highly relevant to financial adaptation because it explains why firms may avoid irreversible commitments and preserve discretion when future states are uncertain. Yet optionality and reconfiguration should not be conflated. Adner and Levinthal (2004) caution against extending real-options terminology beyond conditions in which option logic genuinely applies. The distinction is especially important for FRC. Optionality concerns the preservation of future choices; reconfiguration concerns the active alteration of an existing financial-resource configuration. A firm may preserve an option by delaying commitment, whereas financial reconfiguration may require actively withdrawing capital from one use, recomposing its financing, and redeploying resources elsewhere. FRC therefore concerns

execution of adaptive change rather than merely preservation of the possibility of future action.

2.3 Dynamic Capabilities and Resource Orchestration: From Resources to Purposeful Transformation

Dynamic capabilities provide the theoretical bridge from resource possession to purposeful transformation. Teece *et al.* (1997) argue that competitive adaptation in changing environments depends on firms' abilities to integrate, build, and reconfigure internal and external competences. Eisenhardt and Martin (2000) subsequently characterize dynamic capabilities as identifiable organizational and strategic processes through which firms alter their resource configurations. Teece (2007) further specifies this adaptive process through the capacities to sense opportunities and threats, seize opportunities, and transform organizational assets.

This perspective is particularly useful because reconfiguration requires more than financial slack. Firms must first recognize that existing commitments have become misaligned with emerging conditions. Managerial cognition therefore represents an important microfoundation of adaptive action: managers differ in their capacities to perceive environmental developments and interpret their implications for organizational resources (Helfat & Peteraf, 2015). Dynamic managerial capabilities similarly emphasize managers' roles in building, integrating, and reconfiguring organizational resources (Helfat & Martin, 2015).

Resource orchestration provides greater process specificity. Sirmon *et al.* (2007) argue that value creation depends not merely on possessing valuable resources but on managerial actions that structure, bundle, and leverage them. Their subsequent resource-orchestration framework further connects resource management and asset orchestration across organizational levels and stages of development (Sirmon *et al.*, 2011). Together, these perspectives suggest an important sequence for financial adaptation: firms must recognize, prioritize, recombine, redeploy, and resynchronize resources as circumstances change.

Nevertheless, dynamic-capabilities and resource-orchestration theories typically address organizational resources at a relatively general level. They do not explicitly specify financial-resource configuration as a distinctive theoretical domain characterized by liquidity constraints, financing commitments, maturity structures, opportunity costs, capital irreversibility, and temporal interdependence. FRC develops this domain-specific extension.

2.4 The Theoretical Intersection

The three streams therefore illuminate different components of the same unresolved problem. Financial flexibility explains the financial room available for action. Strategic flexibility and real-options reasoning explain the value of preserving choices when future conditions are uncertain. Dynamic capabilities and resource orchestration explain purposeful resource transformation when existing configurations lose their fit with changing environments.

These theoretical streams provide complementary but incomplete explanations of financial adaptation, creating a conceptual intersection where financial maneuverability, preserved choice, and purposeful resource transformation can be integrated into a distinct capability.

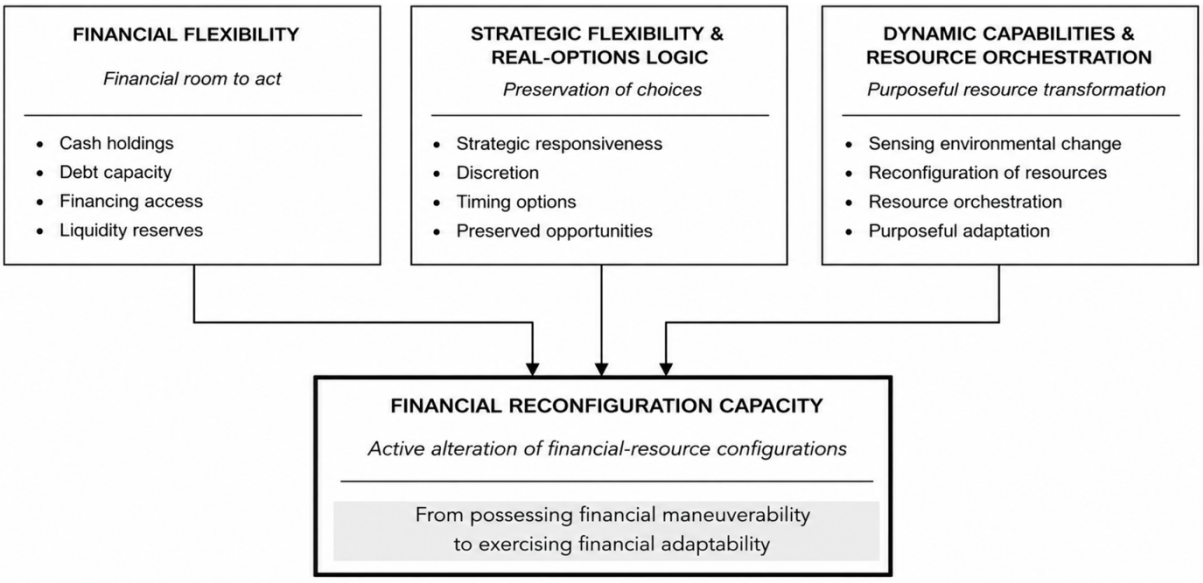

Figure 1. Theoretical Foundations of Financial Reconfiguration Capacity
Source: Authors' conceptualization.

Figure 1 positions FRC as a distinct capability emerging from complementary theoretical foundations. Financial flexibility provides financial room, strategic flexibility and real-options logic preserve choice, while dynamic capabilities and resource orchestration explain purposeful transformation. FRC integrates these insights by specifying how firms actively alter financial-resource configurations, thereby moving beyond resource availability or optionality toward the organizational exercise of financial adaptability.

FRC emerges at the intersection of these insights but is reducible to none of them. It shifts the analytical focus from possessing liquidity, preserving discretion, or generally transforming resources toward the organizational processes through which financial commitments themselves are reconfigured. Accordingly, financial flexibility concerns the availability of financial maneuverability, whereas financial reconfiguration capacity concerns the organizational capability to alter the configuration of financial resources in response to changing economic requirements. This distinction provides the theoretical basis for specifying FRC's domain and developing its underlying mechanisms in the sections that follow.

3. Domain Specification

Conceptual clarity requires Financial Reconfiguration Capacity (FRC) to be bounded from related financial resources, managerial attributes, and organizational outcomes. Without such boundaries, FRC risks becoming an umbrella construct that simply relabels financial flexibility or any financial adjustment undertaken during uncertainty. Its domain is therefore specified along four dimensions: unit of analysis, triggering condition, focal problem, and proximal outcome.

3.1 Unit of Analysis

FRC is conceptualized as a firm-level organizational capability. It represents a repeatable capacity through which a firm recognizes and responds to changes in the suitability of its financial-resource configuration across a sequence of interrelated financial decisions. This positioning follows the dynamic-capabilities view that capabilities reside in organizational processes through which resource configurations are purposefully modified rather than in the resources themselves (Teece *et al.*, 1997; Eisenhardt & Martin, 2000).

Accordingly, FRC is not an individual characteristic of a chief financial officer or another executive, although managerial cognition may influence its development and effectiveness (Helfat & Peteraf, 2015). Nor is FRC equivalent to a single investment decision, cash reserve, unused debt capacity, capital structure, liquidity ratio, or outcome of a particular financing transaction. These may constitute resources, constraints, decisions, or observable manifestations associated with reconfiguration, but none independently constitutes the capability. The defining feature of FRC is its repeatability across related financial decisions, allowing firms to alter financial-resource configurations as conditions evolve.

Clarifying FRC requires distinguishing it from adjacent constructs that explain financial capacity, strategic responsiveness, preserved choice, or broader resource transformation but do not specify coordinated reconfiguration of financial-resource configurations under uncertainty.

Table 1. Conceptual Distinctions Between Financial Reconfiguration Capacity and Related

Construct or Perspective	Primary Focus	Core Adaptive Logic	Distinction from FRC
Financial flexibility	Availability of financial maneuverability through liquidity, debt capacity, and financing access	Preserves financial room to respond to future financing and investment needs	Provides the capacity to act, but does not specify how available financial resources are deliberately reprioritized, recomposed, redeployed, and resynchronized
Strategic flexibility	Organizational ability to modify strategic courses of action as environmental conditions change	Enables responsiveness by allowing firms to alter strategic direction	Concerns strategic responsiveness broadly, whereas FRC specifically addresses reconfiguration of financial resources and commitments
Real-options logic	Preservation of future choices under uncertainty and irreversibility	Maintains discretion by delaying, staging, expanding, or abandoning commitments	Emphasizes preservation of optionality, whereas FRC concerns active alteration of an existing financial-resource configuration
Dynamic capabilities	Purposeful modification of organizational resource bases in changing environments	Enables sensing, seizing, and transformation in response to environmental change	Provides the general reconfiguration logic, while FRC specifies its application to interconnected financial resources, commitments, and timing
Resource orchestration	Structuring, bundling, and leveraging organizational resources	Creates value through coordinated managerial deployment of resources	Provides a general orchestration architecture, whereas FRC specifies financial processes of reprioritization, recomposition, redeployment, and resynchronization
Financial Reconfiguration Capacity (FRC)	Restoration of fit between financial-resource configuration and changing economic requirements	Detects capital misalignment and deliberately reorganizes financial commitments through coordinated, repeatable processes	Represents the focal firm-level dynamic capability, integrating financial availability, purposeful transformation, allocation destination, financing composition, and commitment timing

Authors' conceptualization based on the theoretical synthesis developed in this study.

Table 1 establishes FRC as conceptually distinct from adjacent perspectives rather than a relabeling of financial flexibility or generic resource transformation. Its distinguishing feature is the coordinated and repeatable reconfiguration of financial commitments after capital misalignment emerges. Financial flexibility enables action, optionality preserves choice, and dynamic capabilities support transformation, whereas FRC specifies how financial resources are deliberately reorganized to restore capital-environment fit.

3.2 Triggering Condition: Economic Uncertainty

Economic uncertainty constitutes a contextual trigger of FRC rather than a component of the capability itself. Environmental uncertainty arises when decision makers face difficulty anticipating environmental states, understanding their effects, or identifying appropriate responses (Milliken, 1987). Environmental dynamism similarly reflects instability and unpredictability in conditions relevant to organizational decisions (Dess & Beard, 1984).

Within the financial domain, economic uncertainty encompasses changes that reduce a firm's ability to anticipate future cash flows, demand, investment returns, financing conditions, regulatory developments, and the cost or availability of capital. Economic policy uncertainty has been shown to influence corporate investment decisions (Baker *et al.*, 2016; Gulen & Ion, 2016), while uncertainty can also affect firms' access to debt and precautionary financial behavior (Favara *et al.*, 2021). FRC therefore becomes particularly consequential when environmental change undermines assumptions on which existing financial commitments were based.

3.3 Core Problem: Capital Misalignment

The immediate problem activating FRC is defined here as Capital Misalignment (CM): a condition in which the existing configuration of financial resources and commitments no longer fits the firm's emerging economic requirements, opportunity set, risk exposure, or strategic priorities.

Misalignment can take several forms. Cash may remain concentrated in low-priority uses after investment opportunities shift; existing debt commitments may become poorly matched to changing cash-flow risk; capital expenditure may continue flowing toward activities whose strategic importance has declined; or the timing of investment commitments may become inappropriate as uncertainty changes. Importantly, capital misalignment is not synonymous with financial distress. A financially healthy firm may possess substantial liquidity and borrowing capacity yet still maintain a capital configuration poorly aligned with new conditions. The issue is therefore one of *fit*, not simply resource scarcity.

3.4 Outcome Domain: Adaptive Capital Allocation

The proximal outcome of FRC is Adaptive Capital Allocation (ACA), defined as the *alignment of the amount, destination, composition, and timing of financial commitments with changing economic conditions and strategic requirements*. ACA captures whether financial resources have been reorganized in a manner consistent with newly emerging conditions.

This construct is distinct from investment efficiency because it encompasses financing composition, liquidity deployment, resource destination, and commitment timing beyond investment expenditure alone. It is also distinct from financial performance, which represents a more distal consequence, and from firm growth, because expansion is not an inherent objective of reconfiguration. Under some conditions, adaptive allocation may appropriately entail postponing investment, preserving liquidity, reducing commitments, or withdrawing capital. Thus, FRC is theoretically concerned not with maximizing capital deployment, but with restoring fit between financial-resource configuration and changing economic requirements.

These domain boundaries distinguish the environmental condition that activates financial adaptation, the specific problem requiring organizational response, the focal capability responsible for reconfiguration, and its immediate capital-allocation consequence for firms.

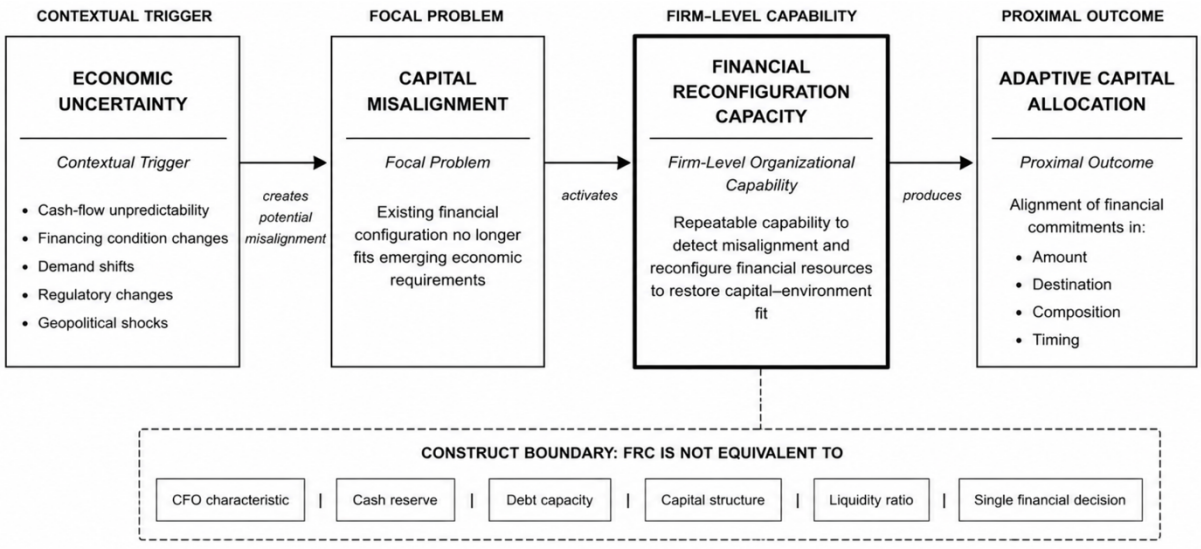

Figure 2. Conceptual Domain of Financial Reconfiguration Capacity
Source: Authors' conceptualization.

Figure 2 establishes the conceptual boundaries of FRC by separating its trigger, focal problem, organizational capability, and proximal outcome. Economic uncertainty creates conditions for capital misalignment, which activates the need for reconfiguration. FRC represents the repeatable firm-level capability for restoring fit, while adaptive capital allocation captures the resulting alignment of financial commitments in amount, destination, composition, and timing.

4. Theory Building: A Middle-Range Theory of Financial Reconfiguration Capacity

The theoretical problem developed thus far is not whether firms benefit from financial flexibility, but how they convert financial room into coordinated adaptive action when economic change reduces the suitability of existing capital commitments. To address this problem, this section develops Financial Reconfiguration Capacity (FRC) as a middle-range theory connecting economic uncertainty to adaptive capital allocation through a set of firm-level reconfiguration mechanisms. The theory is deliberately bounded: it does not seek to explain corporate financial behavior generally, but specifies how firms reorganize financial-resource configurations when changing conditions create capital misalignment.

4.1 Defining Financial Reconfiguration Capacity

Financial Reconfiguration Capacity is a firm-level dynamic capability through which an organization detects emerging capital misalignment and deliberately reprioritizes, recomposes, redeploys, and resynchronizes financial resources to restore fit between its capital configuration and changing economic requirements.

Four characteristics distinguish FRC from ordinary financial adjustment. First, FRC is deliberate. A change in cash holdings or borrowing produced mechanically by declining revenues does not itself demonstrate reconfiguration capacity. FRC requires organizational recognition and purposeful response. Second, it is configurational. Its analytical object is not an isolated financing or investment decision but the relationship among competing capital uses, financing sources, liquidity requirements, and commitment horizons. Third, FRC

is dynamic because its relevance arises when environmental change alters the value or suitability of an existing configuration. This follows the broader dynamic-capabilities principle that adaptation requires purposeful modification of the resource base as conditions evolve (Teece *et al.*, 1997; Eisenhardt & Martin, 2000). Fourth, FRC is repeatable. Although particular responses vary across shocks, the underlying organizational capacity to diagnose and reorganize financial commitments can persist across decision episodes. These characteristics locate FRC between financial resources that make adaptation possible and the individual financial decisions through which adaptation becomes observable.

4.2 Stage I: Financial Sensing and Capital-Misalignment Recognition

Reconfiguration begins with recognition that the existing capital configuration has lost fit with emerging conditions. This recognition is not automatic. The same external shock can have different implications across firms because their cash-flow structures, financing commitments, investment opportunities, and exposures differ. Dynamic-capabilities theory identifies sensing as a critical precursor to adaptive action (Teece, 2007), while research on managerial cognition indicates that managers differ in their ability to perceive environmental change and understand its organizational consequences (Helfat & Peteraf, 2015; Helfat & Martin, 2015).

Financial sensing applies this logic to capital configuration. It involves interpreting signals such as deteriorating cash flows, changing borrowing costs or availability, shifts in investment opportunities, altered risk exposures, demand changes, and macroeconomic developments. Its purpose is not merely to detect uncertainty but to determine whether uncertainty has changed the appropriateness of existing financial commitments.

Empirical research supports this distinction. Policy uncertainty influences corporate investment (Gulen & Ion, 2016), while uncertainty can alter debt access and precautionary behavior (Favara *et al.*, 2021). Firm-specific exposure to disruptive events also varies substantially, producing heterogeneous consequences (Hassan *et al.*, 2023). Recent evidence linking geopolitical risk to investment efficiency further indicates that external uncertainty can disturb the effectiveness with which firms deploy capital (Nguyen *et al.*, 2025). Thus, uncertainty creates the possibility of misalignment, while financial sensing determines whether the firm recognizes its particular implications.

P1. *Economic uncertainty increases the likelihood of capital misalignment by reducing the fit between existing financial-resource configurations and emerging economic requirements.*

4.3 Stage II: Capital Reprioritization

Recognition alone does not restore fit. Once capital misalignment is identified, firms must reconsider the relative importance of competing uses of financial resources. Capital reprioritization refers to the deliberate reassessment of the hierarchy governing financial commitments in light of changed economic and strategic conditions.

This process may involve reconsidering essential versus discretionary expenditures, defensive versus opportunity-seeking investments, liquidity preservation versus capital deployment, and short-term operational continuity versus long-term strategic investment. Importantly, reprioritization is not synonymous with cost cutting. Cost cutting primarily reduces expenditure; reprioritization determines which uses of capital have become relatively more or less valuable. It can therefore produce contraction in one area alongside increased commitment elsewhere.

This mechanism reflects the resource-orchestration argument that value depends on how managers organize and leverage available resources rather than simply on resource possession (Sirmon *et al.*, 2007, 2011). Under uncertainty, previously established capital priorities can persist because of routines, sunk commitments, or strategic inertia. Effective

recognition of misalignment provides the informational basis for challenging those priorities and establishing a revised ordering of financial commitments.

P2. *The more effectively a firm recognizes capital misalignment, the greater its capacity to reprioritize financial commitments in accordance with changing strategic and economic requirements.*

4.4 Stage III: Funding Recomposition

Revised capital priorities must subsequently be reconciled with the structure through which those commitments are financed. **Funding recomposition** refers to deliberate alteration of the mix, availability, and deployment status of financing sources supporting the firm's capital requirements.

Financial flexibility research establishes that cash, borrowing capacity, and access to financing can preserve future investment capacity (Almeida *et al.*, 2004; Gamba & Triantis, 2008; Denis, 2011). Under severe uncertainty, firms may actively increase liquidity or draw available credit to protect themselves against deteriorating financing conditions, as illustrated by the corporate liquidity responses during COVID-19 (Acharya & Steffen, 2020). Uncertainty can also influence access to debt and precautionary financial policies (Favara *et al.*, 2021).

FRC extends this reasoning by treating financing sources as a configuration rather than independent buffers. Funding recomposition can involve shifting between internal cash and borrowing, altering short- and long-term debt exposure, changing reliance on committed versus uncommitted liquidity, preserving or utilizing debt capacity, or refinancing commitments whose structure no longer matches anticipated cash flows. The appropriate configuration depends on the priorities established in the preceding stage. Thus, the issue is not simply whether financing remains available, but whether its composition fits revised capital requirements.

P3. *Capital reprioritization enables funding recomposition by clarifying which financial commitments require preservation, substitution, expansion, or withdrawal under uncertainty.*

4.5 Stage IV: Financial Resource Redeployment

Funding recomposition addresses where financing comes from; financial resource redeployment addresses where available capital goes. This distinction is necessary because changing financing arrangements without changing the destination of resources may leave the original capital misalignment intact.

Financial resource redeployment refers to the deliberate transfer of deployable capital from uses whose relative strategic value has declined toward uses whose value or necessity has increased. Capital may be shifted between projects or business units, from expansion toward liquidity protection, from low-priority expenditure toward strategically important investment, or from rigid commitments toward uses that preserve greater responsiveness.

Resource-orchestration theory provides a useful foundation because it treats resource deployment as an active managerial process (Sirmon *et al.*, 2007, 2011). Similarly, transformation within dynamic-capabilities theory involves recombining and reconfiguring assets as environmental requirements change (Teece, 2007). FRC specifies the financial manifestation of this logic. Redeployment is adaptive when it alters the destination of financial resources in accordance with revised relative value rather than merely reducing aggregate capital expenditure.

P4. *Funding recomposition increases the firm's ability to redeploy financial resources toward uses whose strategic value has increased relative to the existing allocation.*

4.6 Stage V: Temporal Resynchronization

Capital configuration has a temporal dimension that is not captured by the amount, source, or destination of financial resources alone. The value of a commitment may depend critically on when it is made. FRC therefore includes temporal resynchronization, defined as the deliberate adjustment of the timing and sequencing of financial commitments to changing uncertainty and opportunity conditions.

Firms may accelerate investments when emerging opportunities become time-sensitive, postpone commitments when uncertainty makes irreversible investment excessively costly, stagger expenditures to preserve learning opportunities, sequence projects differently as constraints change, or terminate commitments whose prospective value has deteriorated. Real-options research provides supporting logic for the value of timing and delayed commitment under uncertainty (McGrath, 1997; Trigeorgis & Reuer, 2017). FRC, however, extends beyond option preservation. Temporal resynchronization can require active acceleration as well as delay and can occur simultaneously with changes in funding composition and capital destination.

This temporal dimension is central to adaptive allocation because an otherwise appropriate investment can become maladaptive when committed too early or too late.

P5. *Financial reconfiguration capacity improves adaptive capital allocation when firms can resynchronize the timing of financial commitments with changes in uncertainty and opportunity conditions.*

4.7 The Integrated FRC Mechanism

Taken together, the theory proposes a process in which economic uncertainty generates the need for capital-misalignment recognition, prompting firms to undertake capital reprioritization, followed by funding recompositionand financial resource redeployment, while subsequently adjusting the timing of financial commitments through temporal resynchronization. Through this interconnected process, firms can ultimately achieve adaptive capital allocation by realigning their financial-resource configurations with changing economic conditions and strategic requirements.

The proposed mechanism connects uncertainty-induced capital misalignment with coordinated financial reconfiguration, showing how sequential yet interdependent adjustments transform changing economic requirements into a more adaptive configuration of corporate financial commitments.

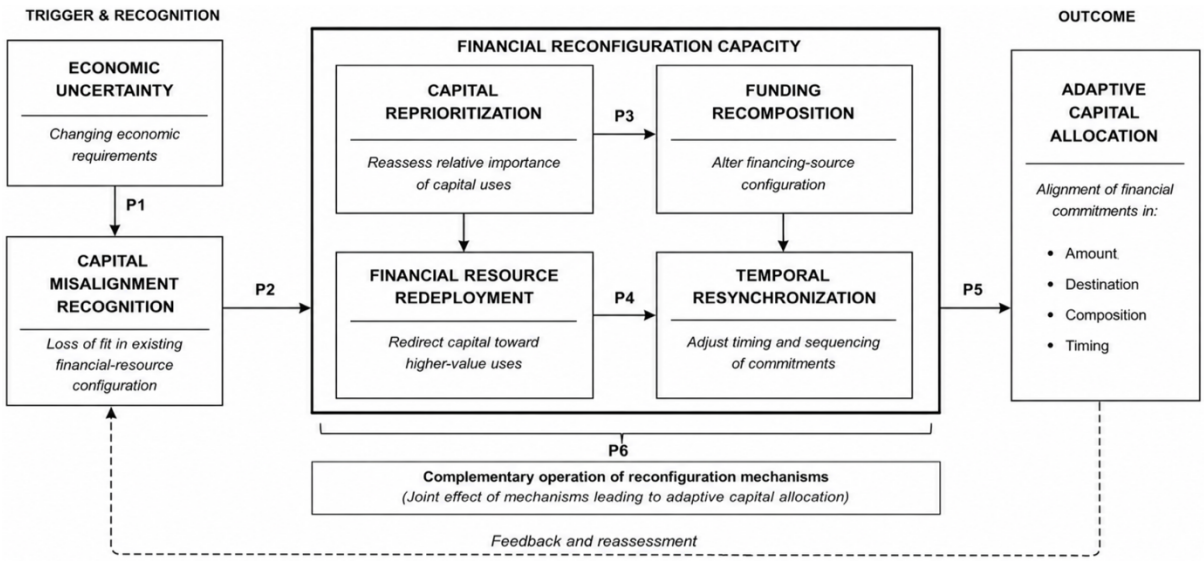

Figure 3. A Middle-Range Theory of Financial Reconfiguration Capacity
Source: Authors' conceptualization.

Figure 3 depicts FRC as an integrated, recursive process linking uncertainty-induced capital misalignment to adaptive capital allocation. Recognition initiates reprioritization, followed by funding recomposition, resource redeployment, and temporal resynchronization. Although analytically distinguishable, these mechanisms operate complementarily, with feedback enabling reassessment as conditions evolve. Adaptive allocation therefore reflects coordinated reconfiguration rather than the isolated effect of any single financial adjustment.

These mechanisms are analytically separable but organizationally interdependent. Reprioritization without funding recomposition may identify new priorities that cannot be financed. Recomposition without redeployment may alter financing sources while leaving capital committed to declining uses. Redeployment without temporal resynchronization may direct capital toward appropriate activities at inappropriate moments. Adaptive capital allocation therefore results from their complementarity rather than from any single financial adjustment.

Nor must the process always unfold as a strictly linear sequence. New information can reveal additional misalignment after resources have been redeployed, while changes in financing conditions can force priorities to be reconsidered. FRC is therefore better understood as a recursive organizational capability in which sensing and reconfiguration can generate feedback across successive financial decisions.

P6. *Financial reconfiguration capacity produces adaptive capital allocation through the complementary operation of capital reprioritization, funding recomposition, resource redeployment, and temporal resynchronization rather than through any single financial adjustment in isolation.*

4.8 Boundary Conditions

As a middle-range theory, FRC is not expected to produce equivalent value under all conditions. Its first boundary concerns environmental dynamism. When conditions are highly stable, established capital configurations may remain appropriate and repeated reconfiguration may impose unnecessary adjustment costs. The value of flexibility generally increases as environmental change makes fixed commitments more problematic (Wernerfelt & Karnani, 1987; Volberda, 1996; Brozovic, 2018).

Second, FRC requires some degree of financial discretion. Firms may correctly recognize misalignment yet lack the liquidity, debt capacity, or financing access needed to change their commitments. Research on financial constraints demonstrates how restricted financing can prevent firms from pursuing desired investment responses (Fazzari *et al.*, 1988; Campello *et al.*, 2010).

Third, effective reconfiguration depends on managerial cognitive capability. Financial data do not interpret themselves. Managers must distinguish temporary volatility from structural change and determine which commitments have genuinely lost strategic fit (Helfat & Peteraf, 2015; Helfat & Martin, 2015).

P7. *The positive effect of financial reconfiguration capacity on adaptive capital allocation is stronger when firms possess sufficient financial discretion and managerial cognitive capability to execute reconfiguration.*

Finally, reconfiguration itself has costs. Frequent adjustment can generate transaction costs, weaken strategic commitment, encourage short-termism, and turn deliberate adaptation into reactive capital switching. The caution of Adner and Levinthal (2004) regarding overly expansive flexibility and option reasoning is relevant here: preserving or exercising flexibility is not inherently valuable when adjustment lacks disciplined boundaries. FRC therefore implies selective rather than continuous reconfiguration.

P8. *The relationship between financial reconfiguration intensity and adaptive capital allocation becomes weaker when the costs of repeated adjustment exceed the value of restoring capital–environment fit.*

The adaptive value of financial reconfiguration is contingent on environmental relevance, organizational capacity for execution, and adjustment costs, establishing conditions under which reconfiguration becomes more or less consequential for firms.

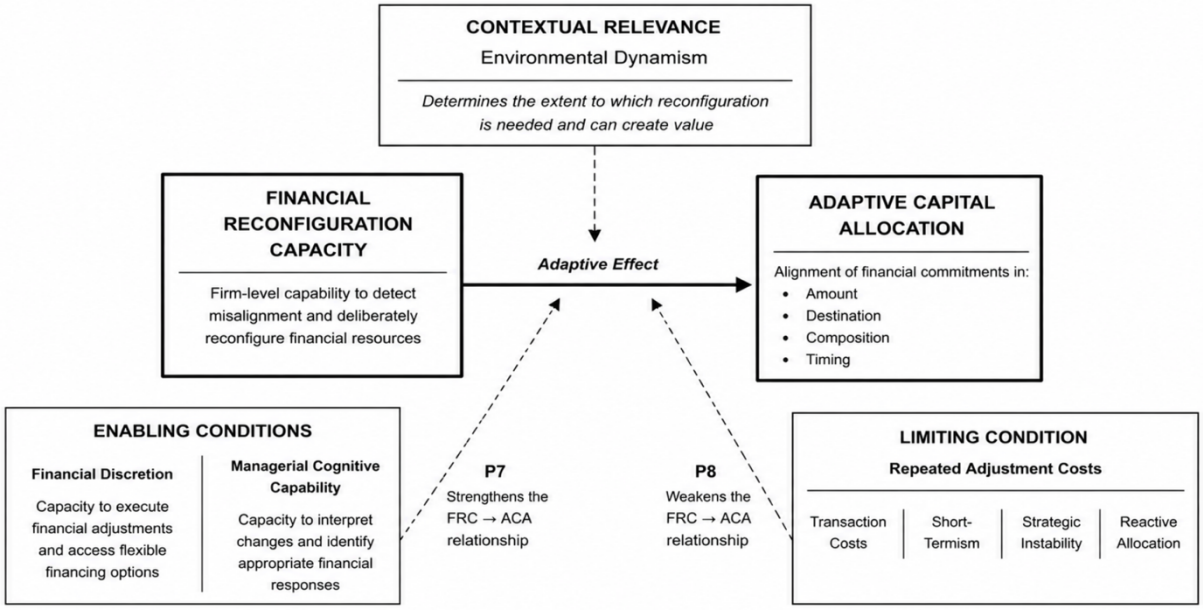

Figure 4. Boundary Conditions of Financial Reconfiguration Capacity
Source: Authors' conceptualization.

Figure 4 clarifies that FRC does not generate adaptive capital allocation uniformly across firms or environments. Environmental dynamism determines the relevance of reconfiguration, while financial discretion and managerial cognitive capability strengthen its effective execution. Conversely, repeated adjustment costs can weaken its adaptive value through transaction costs, short-termism, strategic instability, and reactive allocation. FRC therefore remains valuable only within identifiable theoretical boundaries.

The proposed relationships collectively specify how uncertainty initiates financial reconfiguration, how its mechanisms operate interdependently, and which organizational and economic conditions determine whether reconfiguration ultimately produces more adaptive capital allocation outcomes.

Table 2. Propositions of the Middle-Range Theory of Financial Reconfiguration Capacity

	Proposition & Theoretical Relationship	Core Theoretical Logic	Role in the Theory
P1	Economic uncertainty → Capital misalignment	Changing economic conditions reduce the fit between existing financial-resource configurations and emerging requirements	Contextual trigger
P2	Capital misalignment recognition → Capital reprioritization	Effective recognition enables firms to reassess the relative strategic importance of competing financial commitments	Initiation mechanism
P3	Capital reprioritization → Funding recomposition	Revised capital priorities clarify which commitments and financing sources should be preserved, substituted, expanded, or withdrawn	Financing mechanism

	Proposition & Theoretical Relationship	Core Theoretical Logic	Role in the Theory
P4	Funding recomposition → Financial resource redeployment	Reconfiguring financing sources increases the firm's ability to redirect capital toward uses with greater relative strategic value	Allocation mechanism
P5	Temporal resynchronization → Adaptive capital allocation	Adjusting the timing and sequencing of financial commitments improves alignment with changing uncertainty and opportunity conditions	Temporal mechanism
P6	Complementary FRC mechanisms → Adaptive capital allocation	Adaptive allocation results from the coordinated operation of reprioritization, recomposition, redeployment, and resynchronization rather than isolated adjustments	Integrative mechanism
P7	Financial discretion and managerial cognitive capability × FRC → Adaptive capital allocation	Sufficient financial discretion enables execution, while managerial cognition supports accurate interpretation and selection of appropriate reconfiguration responses	Enabling boundary condition
P8	Reconfiguration intensity × adjustment costs → Adaptive capital allocation	Repeated adjustment becomes less beneficial when transaction and organizational costs exceed the value gained from restoring capital-environment fit	Limiting boundary condition

Source: Authors' conceptualization.

Table 2 consolidates the theory into trigger, mechanism, integration, and boundary propositions. P1 establishes the contextual problem, P2 through P5 specify the reconfiguration process, and P6 captures its complementary operation. P7 identifies conditions enabling effective execution, whereas P8 limits the assumption that greater reconfiguration is invariably beneficial. Together, the propositions define a bounded and empirically testable middle-range theory of FRC.

These boundaries are essential to the proposed theory. FRC does not imply that greater financial change is always superior. Its value lies in the firm's capacity to undertake purposeful, coordinated, and appropriately timed reconfiguration when the benefits of restoring capital–environment fit justify the costs of doing so.

5. Discussion

The proposed theory of Financial Reconfiguration Capacity (FRC) changes the analytical emphasis from the possession of financial resources to the organizational processes through which those resources are reorganized as economic conditions change. This shift has implications for several established literatures. Most importantly, FRC does not seek to replace financial flexibility, dynamic capabilities, or resource orchestration. Rather, it specifies a mechanism that connects these perspectives in the financial domain and provides a basis for explaining heterogeneous capital-allocation responses under uncertainty.

5.1 From Financial Flexibility to Financial Reconfiguration

The first contribution concerns the distinction between financial flexibility and financial reconfiguration. Financial flexibility research has established that maintaining cash, borrowing capacity, and access to financing provides firms with valuable room to maneuver

(Gamba & Triantis, 2008; Denis, 2011). Firms with greater financial flexibility can preserve investment capacity when external financing becomes constrained and respond more effectively to adverse shocks (Marchica & Mura, 2010; Arslan-Ayaydin *et al.*, 2014). Evidence from the COVID-19 crisis reinforces this argument by showing the value of financial flexibility when operating revenues abruptly deteriorate (Fahlenbrach *et al.*, 2021).

FRC extends rather than contests this logic. Financial flexibility establishes whether a firm can respond; FRC explains how available financial room is translated into a coordinated response when existing capital allocations become misaligned. A firm with substantial liquidity may still preserve an obsolete investment, maintain an inappropriate debt structure, or deploy capital too early or too late. Conversely, a firm with more limited financial resources may achieve a better fit by selectively reprioritizing and redeploying what remains available. The central distinction can therefore be expressed succinctly: flexibility provides possibility; reconfiguration converts possibility into adaptive allocation.

This distinction also implies that FRC should not be treated as another measure of financial slack. Cash holdings, unused debt capacity, and financing access are potential enabling resources. FRC is the organizational capability that mobilizes those resources through reprioritization, recomposition, redeployment, and resynchronization. Separating the two constructs creates opportunities to examine why firms possessing comparable financial flexibility may nevertheless exhibit markedly different adaptive responses.

5.2 Extending Dynamic Capabilities into the Financial Domain

The second contribution is to dynamic-capabilities theory. Foundational work conceptualizes dynamic capabilities as organizational abilities to integrate, build, and reconfigure resources in response to changing environments (Teece *et al.*, 1997), with subsequent research emphasizing identifiable adaptive processes (Eisenhardt & Martin, 2000) and the sensing, seizing, and transforming of opportunities and resource positions (Teece, 2007). FRC develops this logic within a more sharply bounded resource domain.

Financial resources have properties that make their reconfiguration theoretically distinctive. They are comparatively fungible but not unlimited; their deployment carries opportunity costs; financing sources differ in cost, maturity, contractual restrictions, and reversibility; and capital commitments are inherently temporal. Financial resources also occupy a dual position in strategic action: they enable investment while simultaneously constraining the set of actions a firm can undertake. Financing constraints can therefore prevent an organization from executing a strategically desirable response even when managers recognize the need for change (Fazzari *et al.*, 1988; Campello *et al.*, 2010).

FRC consequently offers a domain-specific elaboration of dynamic capabilities. It identifies how sensing and transformation operate when the object being reconfigured is not a generic resource base but an interconnected configuration of liquidity, financing sources, capital destinations, and commitment horizons. This sharper specification can help move dynamic-capabilities research from broad claims about reconfiguration toward observable financial mechanisms.

5.3 Extending Resource Orchestration

FRC also extends resource-orchestration theory. Sirmon *et al.* (2007) emphasize that resource possession alone cannot explain value creation because managers must structure, bundle, and leverage resources. The subsequent resource-orchestration framework integrates these activities and emphasizes their coordination across organizational contexts (Sirmon *et al.*, 2011).

The proposed theory translates this general logic into a financial process architecture consisting of four interdependent mechanisms: reprioritization, recomposition, redeployment,

and resynchronization. Reprioritization establishes which uses of capital have become relatively more important; recomposition adjusts the financing structure supporting those priorities; redeployment changes where financial resources are directed; and resynchronization alters when commitments are executed. This decomposition makes financial-resource orchestration more empirically tractable while preserving its configurational character. It also highlights that adaptation can fail at different stages: firms may identify appropriate priorities but lack financing discretion, secure appropriate financing but deploy it poorly, or direct resources correctly but mistime their commitments.

5.4 Repositioning Uncertainty Research

A fourth contribution concerns the interpretation of corporate responses to uncertainty. Empirical finance research has documented relationships between uncertainty and lower corporate investment (Gulen & Ion, 2016), precautionary financial behavior and access to debt (Favara *et al.*, 2021), investment responses to policy uncertainty and external shocks, and investment behavior under geopolitical risk (Alam *et al.*, 2023; Nguyen *et al.*, 2025). Collectively, this evidence demonstrates that uncertainty materially changes corporate financial behavior.

FRC shifts the theoretical question from the level of individual responses to the configuration underlying them. Holding additional cash, postponing investment, or reducing borrowing may each be appropriate under particular conditions, but none is intrinsically adaptive. Their value depends on whether they contribute to restoring fit between financial commitments and changed economic requirements. The relevant question is therefore not only whether firms invest less or hold more cash, but how firms reorganize the overall configuration of financial commitments when uncertainty changes their relative value.

This perspective may also help explain heterogeneous responses to common shocks. Firms experiencing similar uncertainty can differ not merely because they possess different resources, but because they vary in their ability to recognize misalignment and coordinate multiple financial adjustments.

5.5 Research Agenda

The immediate empirical priority is construct development. Future research could operationalize FRC as a multidimensional firm-level capability comprising capital reprioritization, funding recomposition, financial-resource redeployment, and temporal resynchronization. Scale development should establish discriminant validity from financial flexibility, strategic flexibility, financial slack, and investment efficiency.

Several research designs could test the theory. Longitudinal studies could observe firms before, during, and after economic shocks to determine whether FRC accelerates restoration of capital–environment fit. Panel corporate-finance data could examine observable patterns of simultaneous changes in cash, debt, investment, and capital allocation. Surveys of CFOs and top-management teams could capture less observable processes of reprioritization and timing, while mixed-method studies could investigate how firms actually coordinate financial decisions during sudden disruptions.

Relevant outcomes extend beyond conventional profitability. Potential consequences include investment efficiency, liquidity resilience, strategic continuity, recovery speed, and capital productivity. Research should also examine financial slack, debt capacity, ownership structures, governance, managerial cognition, and environmental dynamism as moderators. Particularly important is testing whether FRC exhibits diminishing or negative returns when excessive reconfiguration generates transaction costs, short-termism, or strategic instability.

Translating FRC into empirical research requires designs capable of distinguishing the capability from adjacent constructs, capturing its reconfiguration mechanisms, evaluating

adaptive consequences, and identifying conditions that strengthen or constrain its effectiveness.

Table 3. Empirical Research Agenda for Financial Reconfiguration Capacity

Research Domain	Key Research Question	Potential Empirical Focus	Suitable Research Design
Construct development and validation	Can FRC be reliably measured and distinguished from financial flexibility, financial slack, and strategic flexibility?	Multidimensional measurement of capital reprioritization, funding recomposition, resource redeployment, and temporal resynchronization	CFO/TMT surveys; scale development; CFA; SEM
Reconfiguration process	How does FRC unfold as firms experience and respond to capital misalignment?	Sequence, interaction, and feedback among the four reconfiguration mechanisms before, during, and after economic shocks	Longitudinal studies; process research; mixed methods
Coordinated financial adjustment	Do complementary reconfiguration mechanisms produce more adaptive allocation than isolated financial responses?	Joint changes in liquidity, financing composition, capital destination, and commitment timing	Corporate panel data; configuration analysis; longitudinal models
Adaptive consequences	Does FRC improve organizational outcomes by restoring capital-environment fit?	Adaptive capital allocation, investment efficiency, liquidity resilience, strategic continuity, recovery speed, and capital productivity	Panel studies; event-based longitudinal analysis; structural models
Boundary conditions	Under what conditions does FRC generate stronger or weaker adaptive effects?	Financial discretion, debt capacity, managerial cognition, ownership, governance, and environmental dynamism	Moderation analysis; multigroup models; comparative studies
Over-reconfiguration	When does repeated financial reconfiguration cease to create adaptive value?	Adjustment frequency, transaction costs, short-termism, reactive allocation, and strategic instability	Nonlinear models; threshold analysis; longitudinal designs

Source: Authors' conceptualization.

Table 3 provides an empirical pathway for developing FRC beyond its conceptual formulation. Research should first establish construct validity, then examine how reconfiguration mechanisms interact and influence adaptive outcomes across changing conditions. Testing moderators and nonlinear effects is equally important because FRC should not be presumed universally beneficial. This agenda enables future studies to evaluate both the explanatory power and theoretical boundaries of FRC.

5.6 Managerial Implications

The managerial implication is straightforward but consequential. Financial resilience cannot be built solely by accumulating cash or preserving borrowing capacity. Those resources create room for action but do not determine how that room should be used. Firms also require organizational processes capable of identifying when capital has become misaligned and coordinating what capital to preserve, what to redirect, how to finance it, and when to commit

it. Developing FRC therefore means treating financial adaptation not as a collection of isolated defensive decisions, but as a repeatable organizational capability for restoring capital–environment fit.

6. Conclusion

Economic uncertainty can rapidly alter the conditions under which corporate financial commitments were originally made. A configuration of liquidity, financing sources, investments, and commitment horizons that was appropriate under one set of conditions may become poorly aligned when expected cash flows, financing costs, risk exposures, or strategic opportunities change. The resulting challenge is therefore not simply whether firms possess sufficient financial resources, but whether they can reorganize those resources as their economic relevance changes.

This paper develops Financial Reconfiguration Capacity (FRC) to address this problem. As a middle-range theory, FRC connects economic uncertainty, capital misalignment, financial reconfiguration, and adaptive capital allocation within a bounded explanation of firm-level financial adaptation. Its central premise is that uncertainty becomes consequential for capital allocation when it disrupts the fit between existing financial commitments and emerging economic requirements. Restoring that fit requires more than financial slack or access to funding; it requires an organizational capability for coordinated financial adjustment.

FRC operates through four interdependent mechanisms. Capital reprioritization reassesses the relative importance of competing uses of capital. Funding recomposition adjusts the financing structure supporting revised priorities. Financial resource redeployment redirects capital toward uses whose relative strategic value has increased. Temporal resynchronization adjusts the timing and sequencing of commitments as uncertainty and opportunity conditions evolve. Together, these mechanisms explain how firms can move from recognizing capital misalignment to achieving adaptive capital allocation without assuming that greater investment, liquidity, or financial adjustment is inherently desirable.

The theoretical contribution of FRC therefore lies in shifting attention from possessing financial flexibility to exercising financial adaptability. Financial flexibility creates room for action; it does not determine whether that room will be used coherently, selectively, or at the appropriate time. By conceptualizing reconfiguration as a repeatable organizational capability rather than an isolated financial response, FRC provides a basis for explaining why firms with similar financial resources may adapt differently when confronted with comparable uncertainty.

Ultimately, firms adapt financially not merely because they possess flexible resources, but because they possess the organizational capacity to reconfigure those resources when the economic value of existing capital commitments changes.

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