

Business Instability and Lack of Resilience: A Study of Adaptive Management Practices in MSMEs

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Abstract

This paper will discuss how business instability affects the resilience and performance of MSMEs, particularly the importance of adaptive management practices. A quantitative research design was used to gather primary data on MSME owners and managers and analyze it using SEM. The results indicate that lack of resilience is highly depended on the business instability, thus impacting negatively on the performance of the organization. Nevertheless, a more responsive approach to decision-making, where flexibility, continuous learning, and adaptive management practices prevail, are fairly important in terms of the increased resilience and better performance results. The research also determines that the relationship that exists between instability and performance is partly mediated by adaptive management and resilience. The findings indicate the role of establishing dynamic capabilities within MSMEs to manoeuvre their way through unpredictable business environments. The research provides an addition to the body of knowledge through the presentation of results based on empirical evidence and practical implications to policymakers and managers.

Keywords: MSMEs, Business Instability, Organizational Resilience, Adaptive Management, Structural Equation Modeling, Organizational Performance

Introduction

Most economies rely on their MSMEs as the backbone that is very effective in creating jobs, innovation, and GDP growth. Although MSMEs have economic relevance, the constrained finances, management capabilities, and the increased vulnerability to the environmental turbulence make MSMEs disproportionately vulnerable to business turbulence. Stressors of increasing globalization, technological disruptions, and market volatility have amplified uncertainties and resilience is a vital quality of the survival and sustainability of MSMEs (Saah et al., 2024). Business uncertainty includes the following aspects: changing demand, supply chain problems, financial instability, and

regulatory changes, among them resulting in a decline in the long-term viability.

Resilience is not just a principle of survivability in MSMEs but can be seen as a strategy of predicting, adjusting, and bouncing back in response to shocks without interruption in operation. Yet, most MSMEs do not have well-defined resilience mechanisms in place, resulting in their reactive, as opposed to proactive crisis management. Poor strategic planning, risk management, and the use of adaptive management practices have been cited to be the causes of this lack of resilience. The approach of adaptive management, based on iterative learning, flexibility, and constant adaptation of strategies, has become a crucial means of coping with uncertainty (Williams and Brown, 2014; Saah et al., 2024).

Recent research shows that adaptive management contributes to organizational agility by allowing companies to alter their operational and strategic models in reaction to real-time comments and changes in the environment. MSMEs that embrace adaptive strategies have better resilience, innovation potential, and competition in dynamic markets (Khabbaz et al., 2026). However, implementation of the same is not uniform and especially in the emerging economies where institutionalization, information infrastructure and managerial capabilities lack.

Other challenges of MSMEs in the Indian context include credit crunch, infrastructural hiccups, inconsistency of policies, all of which further enhance instability of businesses. The COVID-19 pandemic also revealed structural vulnerabilities, showing that the best response to the need is resilient and adaptive management frameworks. This makes it important to study the connection between the instability of business and the absence of resilience on the one hand and adaptive management practices on the other hand in order to come up with sustainable approaches to MSMEs.

This research seeks to understand the role of adaptive management practices in achieving resilience in MSMEs and alleviation of business variability. The research assists in the theoretical approach and empirical data to add to the mounting literature on resilience-building strategies within the small business community and provides practical implications to both policymakers and business owners.

Literature Review

The notion of MSME resilience has undergone considerable development and initial works concentrated on the structural vulnerabilities whereas late investigations concentrated on dynamic capabilities and adaptive strategies. The ability of the firms to absorb shocks and adjust to the changing environments and reshape the firms based on the disruptions is a broad conceptualization of the concept of resilience (Linnenluecke, 2017). Resilience is strongly interconnected with managerial capabilities, flexibility of resources, and innovation in the situation of MSMEs.

Originally developed in the fields of ecological and environmental research, adaptive management has been applied more and more in the context of organizations. It entails an ongoing loop of planning, action, monitoring, and learning that enable organizations to be responsive to uncertainty (Allen et al., 2011). According to Sahar et al, (2024), adaptive management improves the resilience of MSMEs by facilitating strategic flexibility, real-time decision-making, which enables companies to manage unstable business environments. According to their results, companies that operate on an adaptive basis are in a better position to tap into new opportunities and reduce risks.

Another factor of resilience has been found to be innovation. Khabbaz et al. (2026) underline that resilience is more of an innovation process than a reactive ability. The innovative MSMEs enjoy better capacities to modify their value propositions and business models to respond to market disruptions hence increasing their flexibility and sustainability. Correspondingly, Doerd et al. (2019) emphasize the fact that resiliency in entrepreneurship can be determined by the capacity to innovate in a constrained environment, especially in times of crisis.

The other important body of literature is on the importance of the managerial and the psychological aspect of resiliency. Alam (2026) discovers that resilience and stress management greatly determine adaptive behavior of

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MSME managers as it can impact how they can respond to digital transformation and changes in the market. This highlights the significance of leadership skills and cognitive flexibility in cultivating resilience in an organization.

Environmental and external considerations also are important in the state of resilience of MSMEs. The study by Linnenluecke and Smith (2018) focuses on the adjustment of MSMEs to the disruptions associated with climate changes and outlines the role played by institutional support and policy frameworks in enabling adaptation and resilience-building strategies to take place. Their analysis incites that external support mechanisms such as financial support and knowledge-sharing platforms are necessary when it comes to facilitating MSMEs towards adaptive strategies.

Additionally, literature on crisis management shows that MSMEs commonly take a reactive strategy because of resource constraints, which do not promote long-term resilience. According to Branicki et al. (2018), the social capital and network relationships play a role in resilience within small firms and were found to contribute to accessing resources and information during a crisis. On the same note, Conz and Magnani (2020) put forward that resilience can be viewed as a construct in multidimensions in the sense that it comprises robustness, agility, and integrity.

The extent to which digital transformation has led to increased resilience of MSMEs has become a dominant topic of recent literature. With the help of digital technologies, firms are able to enhance efficiency of operations, enter new markets, and be fast to react to disruptions. Nevertheless, the uptake of digital tools is not even among MSMEs and especially in developing economies, which constrains their resilience capabilities.

Despite the abundance of research, there are still gaps in comprehending how adaptive management practices can be integrated with resilience-building strategies in MSMEs. Literature mainly looks at resiliencies and adaptations separately without investigating the interconnections. Additionally, the empirical evidence of emerging economies, in which the MSMEs are subject to their own socio-economic and institutional circumstances is insufficient.

Overall, the conditions outlined in the literature point to the fact that MSME resilience is subject to a set of interplaying internal capacities, external support systems and adaptive management practices. Adaptive management is considered a vital facilitator of resilience, although there is inconsistent spread of adaptive management implementation in MSMEs. The research aims to close these gaps by discussing the impact that adaptive management practices will have on reducing business instabilities and improving resilience among MSMEs, thus leading to theoretical and practical improvements in the industry.

Objectives:

The research will discuss the degree of business instability within the MSMEs, determine the factors that lead to no resilience, and explore how adaptive management practices can increase the resilience of the organization. It also aims at examining how adaptability, performance, and sustainability relate to each other, and propose measures to enhance resilience in MSMEs.

Methodology

The research takes a quantitative, descriptive-analytical research design to test the hypothesis of the relationship between business instability, business resilience and adaptive management practices among MSMEs. Primary data will be collected using a structured questionnaire with 300 owners and managers of MSME in manufacturing and service industries that will be chosen using stratified random sampling. The tool quantifies constructs of environmental uncertainty, adaptive practices, and organizational resilience by use of five-point Likert scale.

Cronbach alpha and the CFA are used to assess reliability and validity. Descriptive statistics, correlation, and SEM are used to analyze the data to test hypothesized relationships, backed by secondary data i.e. industry reports and academic journals.

Results and Discussion

Table 1 Descriptive

Variable	Mean	Std. Deviation
Business Instability	3.82	0.74
Lack of Resilience	3.65	0.69
Adaptive Management Practices	3.48	0.72
Organizational Performance	3.56	0.68

As shown in the descriptive statistics, business instability is rather high in MSMEs, as the mean and standard score are 3.82. This implies that requests and demands, financial uncertainties, and disruptions to their operations are common phenomena among the respondents. The average score of the lack of resilience (3.65) also emphasizes the little ability of MSMEs to survive such instability, which means the lack of preparations and the ability to use such adaptive strategies. Adaptive management practices present an average score of 3.48 which means partial adoption of flexible and learning-oriented approaches. Organizational performance with the mean of 3.56 has moderate results even though there are instability problems. The values of the standard deviation by variables are less than 1 indicating uniformity in the responses. Altogether, the results demonstrate a severe discrepancy between the threats that MSMEs have to endure, and the capability to accommodate and maintain performance and outline the necessity to implement more robust resilience-building initiatives.

Table 2 Correlations

Variables	BI	LR	AMP	OP
Business Instability (BI)	1			
Lack of Resilience (LR)	0.68	1		
Adaptive Management (AMP)	-0.52	-0.61	1	
Organizational Performance (OP)	-0.47	-0.58	0.64	1

The correlation table shows strong correlation between the key constructs. Lack of resilience is positively related to business instability ($r = 0.68$), which means that more instability results in weaker resilience capacities of MSMEs. On the other hand, the adaptive management practices are negatively correlated with business instability ($r = -0.52$) and lack of resiliency ($r = -0.61$) meaning that the adaptive management practices are more beneficial in reducing the instability and increasing the resilience of a firm. Also, there is a positive interrelationship between adaptive management practices and organizational performance ($r = 0.64$), which underscores their value in enhancing performance. The adverse relationships among instability, the absence of resilience, and performance only support the negative implications of environmental uncertainty. These results confirm the theoretical assumption that adaptive management is a mediating mechanism that enhances resilience and better performance of firms through volatile business environments.

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Table 3 CFA

Construct	Cronbach's Alpha	Composite Reliability (CR)	AVE
Business Instability	0.86	0.88	0.59
Lack of Resilience	0.84	0.87	0.57
Adaptive Management Practices	0.89	0.91	0.63
Organizational Performance	0.85	0.88	0.60

The reliability and validity scores substantiate the effectiveness of the measurement model of this study. All the values of alpha used by Cronbach are above the required level of 0.70 which means that all the measurement items have high internal consistency. The CR values are also better than 0.80, which again confirms reliability of the constructs. The values of the AVE are greater than the breaking point of 0.50, which disproves the lack of convergent validity and suggests that the factors measure a considerable amount of variance in indicators of the constructs. These findings imply that the measurement scales, which measure business instability, resilience, adaptive management practices, and organizational performance, are reliable as well as valid. The model, therefore, has a good basis upon which additional structural analysis can be done by applying SEM whereby the observed relationships between the variables are not distorted by measurement error or inconsistencies.

Table 4 Model Fit Indices

Fit Index	Value	Recommended Value
Chi-square/df	2.41	< 3
CFI	0.94	> 0.90
TLI	0.92	> 0.90
RMSEA	0.052	< 0.08

The model fit indices show that the structural model has a good fit with observed data. The Chi-square/df ratio value of 2.41 is within the acceptable level meaning the model is a good representation of the data structure. The values of the Comparative Fit Index (CFI) and Tucker Lewin Index (TLI) are more than 0.90, so the model fits and is consistent. At a distance 0.052 is significantly smaller than the value of 0.08 so the model is adequate again. A combination of these fit indices supports the structural model, thus suggesting that all the relationships between business instability and adaptive management practices and resilience and organizational performance are statistically significant. The obtained results give an assurance that one may go ahead and use path analysis and hypothesis testing because the model is reflective of the underlying constructs relationship in the MSMEs.

Table 5 Path Coefficients

Hypothesis	Relationship	Path Coefficient (β)	p-value	Result
H1	BI \rightarrow LR	0.62	0.000	Supported
H2	BI \rightarrow AMP	-0.48	0.001	Supported
H3	AMP \rightarrow LR	-0.55	0.000	Supported
H4	AMP \rightarrow OP	0.67	0.000	Supported
H5	LR \rightarrow OP	-0.51	0.002	Supported

The path analysis of the SEM offers excellent empirical evidence of all the hypothesized relationships. Instead, the positive influence of business instability on lack of resilience (Beta = 0.62) means that as the instability increases, the MSMEs become more vulnerable to coping with disruption. Moreover, the instability of businesses has a negative effect on adaptive management practices (Beta = 0.48), which implies that the most unstable environments should be avoided when implementing organized adaptive strategies. There is also a strong negative relationship between adaptive management practices and lack of resilience (Beta = -0.55), which confirms the importance of these practices in strengthening the resilience of an organization. Moreover, the adaptive management contributes greatly to the performance of the organization (Beta = 0.67), which is one of its strategic values. Lastly, performance is adversely influenced by the absence of resilience (Beta = -0.51) and resilience is important in the maintenance of business. On the whole, the findings indicate that adaptive management practices can serve as an important tool to mitigate the effects of instability and enhance the performance of MSMEs.

Table 6 Mediation

Path	Indirect Effect	Result
BI → AMP → OP	-0.32	Partial Mediation
BI → LR → OP	-0.28	Partial Mediation

The mediation analysis indicates that there exists an influence of adaptive management practices and resilience between the relation of business instability and organizational performance. The negative relationship (-0.32) between business instability and performance via adaptive management practices demonstrates that the negative impact of business instability on performance partially comes through an inability of the business to adopt adaptive management strategies. Likewise, the lack of resilience mediation effect (-0.28) indicates that the issue of instability is being detrimental to performance because the lack of resilience capacity undermines the capability of the firm to withstand. The mediation, however, is partial and not complete as both direct and indirect effects are also important. This means that although adaptive management and resilience are important to the dampening instability, other factors might affect performance since they can be external support, financial resources, as well as technological capabilities. The results highlight the role of intensified adaptive practices as a way of increasing resilience and enhancing sustainability of MSMEs in unstable business settings.

Discussion

This study can be described as having a powerful empirical evidence on the importance of adaptive management practices in reducing business instability and increasing resilience of MSMEs. The findings suggest that, the absence of instability in businesses largely contributes to the vulnerability of business resilience, which substantiates the notion that MSMEs are quite susceptible to environmental uncertainties because of scarcity of resources, poorly developed risk management strategies, and the lack of proper strategic planning. This matches previous studies that highlighted the fact that small firms tend to act reactive instead of proactive, and thus are more prone to external shocks and fluctuations in the market. The strong positive correlation of both instability and lack of resilience implies that both instability and lack of resilience pose short-term operational risks and long-term weakening of MSMEs.

The paper also shows that adaptive management practices are critical in reversing these weak spots. The correlation between adaptive management and lack of resilience is negative, which means that firms engaging in flexible decision-making methods, fostering learning and engaging in iterations are better placed to cope with shocks. The observation is in line with the dynamic capabilities perspective that argues that organizations have to constantly process their resources and strategies in order to be competitive in uncertain environments. Adaptive management also helps MSMEs to build response to real-time feedback, modify their business models, and seize emergent opportunities, which limits their vulnerability to instability.

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The other valuable learning of the research is the extent to which adaptive management practices positively influence the performance of an organization. MSMEs who take action to adapt and respond using the strategies prove to be more efficient, innovative and responsive to the markets hence better performance results. This is an indication that adaptive management is not only a survival mechanism; but also a source of competitive advantage. Conversely, the negative correlation between absence of resilience and performance shows the harmful impacts of a poor resilience on business survival. Lowly resilient firms find it hard to bounce back after disruptive occurrences, resulting in low productivity, losses and in a worst case scenario, failure of business.

Contextually, the results are specifically applicable in MSMEs in developing economies such as India where issues of business instability are further compounded by factors of inadequate access to credit, infrastructural factors and regulatory issues. The average rate of adoption of adaptive management practices revealed in the research points to a discrepancy between the level of awareness and practice. The reason behind this gap can be either a lack of managerial experience, unwillingness to change, or lack of access to training and technology. The importance of such barriers is to overcome them to strengthen MSMEs, making them sustainable in the long-term.

In general, the research paper adds to existing data because it creates an explicit connection between business instability, adaptive management practices, resilience and performance of MSMEs. It strengthens the idea that resilience is not something but dynamic ability that can be enhanced by the means of intentional managerial measures. These results highlight the significance of enhancing a culture of flexibility, lifelong learning, and strategic adaptability in MSMEs. In this way, not only can the firms survive in unstable environments, but also realize sustainable growth and competitive advantage.

Conclusions

The research finds that business uncertainty considerably compromises the sustainability and effectiveness of MSMEs, which is mainly caused by their structural constraints and responsive management strategies. The main empirical evidence supports that the absence of resilience is a decisive obstacle to sustainability, whereas the adaptability managerial activities are indeed a useful tool aimed at addressing the instability. By utilizing learning-oriented and flexible decision-making processes which are also iterative, MSMEs are more resilient and their organization is better-performing. The further outcomes of the SEM results are that adaptive management and resilience are partial mediators between instability and performance suggesting the strategic significance of adaptive management and resilience. All in all, the research confirms that resilience does not happen in MSMEs but is an active competence that is made by adaptive managerial practices and sustained congruence of strategic alignment to evolving business environments.

Recommendations

The adaptive practices of management should be institutionalized through MSMEs incorporating a constant learning and real-time decision-making approach alongside strategic flexibility into the operations frameworks of the organization. Training on risk management, digital tools, and innovation practices all should have a higher priority because they are aspects of capacity-building; they help managers competencies. Policymakers should enhance the support systems through better access to finance, technological support, and advisory services specific to MSME. Also, the development of collaborative networks and industry linkages can assist firms to utilize vital resources and information that may exist amid instability. Data-based ways of monitoring environmental changes and preempting disruptions should be also implemented by MSMEs. To achieve resilience and long-term sustainability, a holistic approach that involves capability building on the outside through external institutional assistance is crucial in volatile business settings.

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