

Economics and Business Quarterly Reviews

Attaallah, M., Ginting, H., Famiola, M., Sushandoyo, D. (2026). From Static Stages to Non-Linear States: Rethinking SME Growth. *Economics and Business Quarterly Reviews*, 9(2), 96-112.

ISSN 2775-9237

DOI: 10.31014/aior.1992.09.02.717

The online version of this article can be found at:
<https://www.asianinstituteofresearch.org/>

Published by:
The Asian Institute of Research

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From Static Stages to Non-Linear States: Rethinking SME Growth

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Abstract

Small and medium-sized enterprises (SMEs) are commonly discussed through stage-based models that describe firm development as movement from start-up and survival toward growth, expansion, and maturity. These models remain useful because they offer a simple language for classifying firm development and identifying common managerial challenges. However, they become limited when SME growth is treated as a linear, predictable, and universal process. Many SMEs do not follow a smooth path from early stage to maturity. They may progress, stagnate, regress, restructure, renew, or exit depending on internal capacity and external pressure. This review paper examines the transition from static stage models toward a non-linear state-based view of SME development. It argues that SME development should be understood through current developmental conditions rather than fixed chronological stages. Five non-linear states are proposed: foundational viability, coordinated expansion, strain and misalignment, retrenchment and reconfiguration, and renewal and adaptive competitiveness. The paper also explains how SMEs may move forward, backward, circularly, or discontinuously across these states. By shifting attention from fixed stage progression to dynamic developmental conditions, this review provides a more flexible foundation for understanding SME growth, instability, decline, recovery, and renewal.

Keywords: SME Growth, Static Stages, Developmental States, Non-Linear Development, Small Business Growth, Renewal, Retrenchment

1. Introduction

1.1. Importance of Understanding SME Development

Small and medium-sized enterprises (SMEs) occupy a central position in economic development because they contribute to employment generation, entrepreneurial activity, innovation, market dynamism, and local resilience. Their development is therefore not only a firm-level concern but also a broader economic and social issue. However, despite their importance, SME development remains difficult to explain because small firms rarely grow in a uniform, predictable, or continuous manner. Some SMEs expand rapidly, some remain stable and small, some

stagnate for long periods, and others decline, recover, restructure, or exit the market. This diversity suggests that SME growth should be understood as a complex developmental process rather than as a simple movement from one fixed phase to another (Davidsson et al., 2010; McKelvie & Wiklund, 2010).

Understanding SME development is also important because growth is not only a matter of increasing sales, assets, or employment. Growth may involve changes in managerial capacity, organizational structure, resource use, operational systems, market positioning, learning, and adaptation. A firm may increase its sales while simultaneously experiencing weak coordination, cash-flow pressure, leadership overload, or internal fragility. Conversely, a firm may reduce its activities temporarily while rebuilding the basis for future survival and renewal. These possibilities show that SME development cannot be fully captured through simple indicators of expansion or maturity. It requires a broader understanding of how firms move through different developmental conditions over time (Garnsey, 1998; Delmar et al., 2003).

1.2. The Dominance of Stage-Based Explanations

Much of the early and influential literature on SME growth has relied on stage-based or life-cycle explanations. These models commonly assume that firms move through a sequence of developmental phases, often beginning with existence or start-up, then moving toward survival, growth, expansion, and maturity. Churchill and Lewis (1983), for example, proposed one of the most widely cited small-business growth models, identifying five stages: existence, survival, success, take-off, and resource maturity. Scott and Bruce (1987) similarly presented small-business growth as a staged process with different crises and strategic issues at each phase.

These models have made an important contribution because they simplify a complex phenomenon and provide a practical language for identifying common growth problems. They also show that the challenges faced by a new venture are not the same as those faced by an expanding or more established firm. Yet the dominance of stage-based explanations has also shaped the way SME growth is understood. By presenting development as a sequence of stages, these models often imply that firms move forward in an ordered and relatively predictable way. This assumption becomes problematic when it is applied too rigidly to SMEs, whose growth patterns are often unstable, discontinuous, and reversible (Phelps et al., 2007; Levie & Lichtenstein, 2010).

1.3. The Problem with Linear Assumptions

The main limitation of traditional stage-based thinking is not that it is entirely wrong, but that it can create a linearity trap. This trap occurs when SME development is interpreted as a predictable progression from one stage to the next rather than as a dynamic process involving movement, interruption, reversal, and adaptation. Phelps et al. (2007) argue that many life-cycle models rely on assumptions of linearity, sequentiality, determinism, and invariance, even though these assumptions may not adequately reflect how organizations actually grow and change.

For SMEs, this problem is especially important because development is shaped by uncertainty, resource constraints, managerial limitations, market shifts, competitive pressure, and external shocks. SMEs may not simply move from start-up to growth and then maturity. Instead, they may experience progress, stagnation, regression, retrenchment, recovery, renewal, or exit. A young firm may show advanced capability, while an older firm may remain fragile or poorly structured. A growing firm may appear successful externally while internally struggling with weak systems or financial pressure. Such cases challenge the assumption that growth automatically represents advancement or that firm age and size accurately indicate developmental maturity (Hanks et al., 1993; Davidsson et al., 2010).

1.4. Aim of the Paper

This paper reviews the shift in SME growth research from static stage-based models toward non-linear developmental state perspectives. It aims to clarify the limitations of linear growth assumptions and explain how a state-based view can better capture the diverse trajectories of SMEs. Specifically, the paper argues that SME development should not be understood only as movement through fixed stages such as start-up, growth, and

maturity. Instead, it should be examined as a dynamic process in which firms may experience different developmental states, including viability, expansion, strain, retrenchment, renewal, and exit.

By focusing on the transition from static stages to non-linear states, this review contributes to SME growth literature in three ways. First, it revisits the usefulness and limitations of traditional stage-based models. Second, it explains why linear assumptions are insufficient for capturing the complexity of SME development. Third, it advances a state-based perspective that recognizes multiple possible trajectories, including progression, stagnation, regression, restructuring, renewal, and failure. The review therefore provides a more flexible foundation for understanding SME development as a dynamic, reversible, and context-sensitive process.

2. The Static Stage View of SME Growth

2.1. Meaning of Stage-Based SME Growth Models

Stage-based models of SME growth refer to frameworks that explain firm development as movement through a series of identifiable phases. These phases are often described using terms such as existence, survival, growth, expansion, take-off, maturity, or resource maturity. The central idea is that firms face different managerial, structural, financial, and strategic challenges as they develop over time. In this view, the development of an SME is not random; it can be understood as a sequence of growth stages, each with its own dominant problems and priorities (Churchill & Lewis, 1983; Scott & Bruce, 1987).

Classical stage models became influential because they offered a systematic way to classify the development of small firms. Churchill and Lewis (1983) suggested that the problems faced by small businesses change as firms move from owner-dependent survival toward more formalized managerial and organizational structures. Scott and Bruce (1987) also emphasized that each stage has distinctive characteristics, potential crises, and strategic issues that managers need to address. Broader organizational life-cycle theories influenced this thinking by presenting firm development as movement from simple, informal, and entrepreneurial forms toward more complex, formalized, and structured organizations (Greiner, 1972; Quinn & Cameron, 1983).

2.2. Core Assumptions of Stage Models

The first major assumption of stage-based SME growth models is that growth follows a relatively predictable path. Although different models use different labels, they commonly suggest that firms move from early survival concerns toward expansion, formalization, and maturity. The second assumption is that firms move from simple to more complex structures. In early stages, SMEs are usually described as informal, owner-managed, resource-constrained, and highly dependent on the founder or owner-manager. As the firm grows, stage models assume that it requires more formal systems, professional management, delegation, planning, and control mechanisms (Churchill & Lewis, 1983; Hanks et al., 1993).

A third assumption is that each stage has typical managerial and organizational problems. For example, the central problem in an early state may be acquiring customers and proving viability, while later challenges may involve delegation, cash-flow control, professional management, coordination, and renewal. Greiner's model is influential in this regard because it shows that managerial practices suitable for one phase may create problems in another, leading to crises that must be resolved before further development can occur (Greiner, 1972). A fourth assumption is that later stages are often treated as more advanced than earlier ones. Later stages are usually associated with greater stability, stronger systems, broader markets, and more professional management.

2.3. Contributions of Stage Models

Despite later criticism, stage-based models have made important contributions to SME growth research. Their first contribution is that they provide a simple and accessible language for explaining firm development. SME growth is complex, and without some form of classification it can be difficult to compare firms or identify recurring

patterns. Stage models help organize this complexity by showing that firms at different points of development may face different priorities.

Second, stage models help explain why managerial problems change over time. A newly established SME may be mainly concerned with survival, customer acquisition, and cash flow. A growing SME may face different challenges, such as delegation, operational control, financing expansion, and building management systems. A more established firm may need to focus on maintaining competitiveness, professionalizing management, or preventing rigidity. Churchill and Lewis (1983) remain influential partly because they link each stage of small-business growth to changing managerial demands and resource requirements.

Third, stage models are useful for practitioners because they help owner-managers anticipate future challenges. Scott and Bruce (1987) presented their model as a practical tool for helping small-business managers plan for future growth, identify potential crises, and select appropriate strategies. In this way, stage models are not only theoretical frameworks; they also function as diagnostic tools that help managers think about what may be required as the firm becomes larger and more complex.

2.4. Limitations of Stage Models

Although stage-based models provide useful insights, they may overstate the predictability and sequence of SME development. By presenting growth as movement from one stage to another, these models may imply that firms naturally progress from start-up to survival, growth, expansion, and maturity. However, real SME development is often less orderly. Firms may remain small by choice, grow and then decline, restructure after crisis, return to earlier survival problems, or renew themselves after periods of stagnation.

Levie and Lichtenstein (2010) offered one of the strongest critiques of stage theory. Their review of 104 stages-of-growth models found no strong consensus on the basic constructs of the stage approach and no clear empirical confirmation of stage theory. They argued that a dynamic states approach may offer greater explanatory power because it allows firms to move between conditions rather than forcing them into a fixed sequence of stages. Therefore, the static stage view provides an important foundation, but it is insufficient for explaining the full complexity of SME development. This limitation creates the need to examine the linearity trap in SME growth research.

3. The Linearity Trap in SME Growth Research

3.1. Sequential Progression as an Oversimplification

The main problem with stage-based SME growth models is not that they are irrelevant, but that they can oversimplify the developmental realities of small and medium-sized enterprises. Classical stage models often present SME development as movement from start-up to survival, growth, expansion, and maturity. This logic is useful for organizing growth problems, but it becomes problematic when it assumes that firms naturally move from one stage to the next in an ordered and predictable way. In practice, SMEs do not always follow such a neat developmental path. Their growth may be delayed, interrupted, reversed, accelerated, or reshaped by internal and external conditions.

This limitation can be described as the linearity trap. The linearity trap occurs when SME development is interpreted as a fixed and sequential process rather than as a dynamic and uncertain trajectory. Phelps et al. (2007) argue that many life-cycle models are based on assumptions of linearity, sequentiality, determinism, and invariance. Levie and Lichtenstein (2010) similarly found that stages-of-growth models are widely used but lack strong consensus and empirical confirmation. Therefore, the weakness of stage models lies not in their descriptive value, but in their tendency to imply that SME development follows a universal path.

3.2. Growth as Unstable and Reversible

SME growth is often unstable because small firms operate under conditions of uncertainty, limited resources, market pressure, and managerial constraint. Unlike large firms, SMEs usually have fewer financial reserves, less formalized management, and greater dependence on the owner-manager. These characteristics make their development more vulnerable to disruption. As a result, growth may not continue smoothly once it begins. A firm may expand for a period, then experience stagnation, decline, retrenchment, or recovery.

This instability challenges the traditional assumption that growth represents continuous progress. Delmar et al. (2003) showed that high-growth firms do not follow a single uniform pattern; instead, they achieve growth in different ways and through heterogeneous trajectories. McKelvie and Wiklund (2010) similarly argue that growth research should pay more attention to how firms grow, not only to how much they grow. This shifts attention from growth rate to growth mode, process, and pattern. Growth can also be reversible. Gamsey (1998) explains that early firm growth involves the matching of resources and opportunities, but solutions to one growth problem may create new problems, and later development may involve both growth-reinforcing and growth-reversing forces.

3.3. Firm Age and Size Are Insufficient Indicators

Another weakness of linear stage thinking is that it often relies on firm age, size, or structural complexity as indicators of developmental progress. In traditional models, young and small firms are usually associated with early stages, while older and larger firms are associated with more advanced stages. However, this assumption does not always reflect the actual developmental condition of SMEs. A firm may be old but still fragile, informal, and highly dependent on the owner. Another firm may be young but already possess strong systems, professional management, advanced technology, or a clear market position.

This problem shows why age and size are insufficient indicators of SME development. Davidsson et al. (2010) emphasize that small firm growth is conceptually and methodologically complex, with significant variation in how growth is measured and interpreted. Hanks et al. (1993) also argued that life-cycle stages should be understood as configurations of organizational characteristics rather than simple chronological categories. A non-linear view therefore asks a different question. Instead of asking how old or large the SME is, it asks what condition the SME is currently experiencing.

3.4. The Hidden Problems Behind Apparent Growth

A further limitation of linear growth assumptions is that they may treat visible expansion as evidence of healthy development. In practice, apparent growth can hide serious internal problems. An SME may experience rising sales, increased customers, or market expansion while simultaneously suffering from weak systems, poor coordination, cash-flow pressure, leadership overload, or declining strategic fit. In such cases, growth does not necessarily mean that the firm is becoming stronger. It may instead create new pressures that the organization is not yet able to manage.

This issue is partly recognized in classical growth models. Greiner (1972) shows that growth can produce crises because the management practices that work in one period may become inadequate in another. However, the problem is that many simplified applications of stage models still treat growth as forward movement rather than as a process that may generate instability. For SMEs, growth can create organizational complexity faster than the firm can develop systems, leadership capacity, and financial discipline. The linearity trap therefore hides the possibility that expansion can be developmentally unhealthy when it is not supported by sufficient internal capacity.

3.5. The Problem of Treating Maturity as the Final Destination

Traditional stage models often imply that maturity is the final or most advanced stage of firm development. Maturity is usually associated with stability, formalization, resource control, managerial systems, and organizational sophistication. While these features are important, treating maturity as the final destination can be

misleading. It suggests that once firms reach maturity, their developmental challenge is largely complete. A non-linear view rejects this assumption because SMEs must continue adapting even after they become established. Maturity can also create rigidity. Established firms may become less flexible, less innovative, or less responsive to changing market conditions. Miller and Friesen's (1984) corporate life-cycle model recognized this complexity by including not only birth, growth, and maturity, but also revival and decline. This shows that development does not end with maturity. Firms may need renewal after maturity, and they may also experience decline if they fail to adapt. For SMEs, survival, adaptation, and renewal are continuous challenges.

4. Why SME Development Is Non-Linear

4.1. Internal Complexity

SME development is non-linear partly because firms become more complex as they operate, grow, and respond to changing conditions. In early periods, many SMEs depend heavily on the owner-manager, informal routines, direct supervision, and flexible decision-making. However, as the firm expands, these informal arrangements may become insufficient. Growth can increase the need for clearer roles, stronger managerial capacity, better financial control, reliable operational systems, and more structured decision-making. Internal complexity therefore does not simply increase smoothly; it often emerges through pressure, crisis, adjustment, and learning (Garnsey, 1998; Greiner, 1972).

This internal complexity explains why SME growth should not be measured only by the amount of growth achieved. McKelvie and Wiklund (2010) argue that firm growth research should pay greater attention to how firms grow rather than focusing only on how much they grow. Two SMEs may show similar growth rates but experience very different internal conditions. One may grow through stable and well-managed expansion, while another may grow in a way that produces strain, weak coordination, or managerial overload. SME development becomes non-linear when internal systems, leadership capacity, financial discipline, and organizational structure do not develop at the same speed as market demand or sales growth.

4.2. External Uncertainty

SME development is also non-linear because firms operate in uncertain and changing environments. Market demand may shift, customer preferences may change, new competitors may enter, technologies may disrupt existing business models, regulations may alter operating conditions, and economic crises may reduce purchasing power or access to finance. These external conditions can interrupt growth, redirect strategic priorities, or force SMEs to restructure.

The dynamic capabilities literature helps explain why firms need to adapt, integrate, and reconfigure resources in changing environments. Teece et al. (1997) argue that firms operating in environments of rapid technological change need dynamic capabilities to create and capture value. Eisenhardt and Martin (2000) similarly describe dynamic capabilities as identifiable processes such as product development, strategic decision-making, and alliancing that help firms respond to dynamic markets. Although these works are not limited to SMEs, the argument is relevant because SMEs often face changing environments with fewer buffers than larger firms.

4.3. Resource Constraints and Vulnerability

SMEs are especially vulnerable to non-linear development because they often operate with limited financial, human, managerial, and organizational resources. Resource constraints make it difficult for SMEs to absorb shocks, invest in new capabilities, hire specialized staff, adopt new technologies, or survive long periods of weak demand. As a result, even a relatively small disruption can produce significant developmental consequences.

Garnsey (1998) emphasizes that firms must access, mobilize, and deploy resources before they can generate further resources for growth. This is especially important for SMEs because they frequently face a gap between what they need to grow and what they currently possess. If the firm cannot mobilize the necessary resources at the right time,

growth may slow, reverse, or become unstable. Limited resources increase the possibility of interruption, reversal, and retrenchment, which explains why SME growth does not always follow a smooth line from start-up to maturity.

4.4. Discontinuous Growth Patterns

SME growth is non-linear because growth patterns are often discontinuous. Some firms grow gradually, some grow suddenly, some remain stable, and others grow for a period before declining or restructuring. Growth may occur in bursts rather than through continuous expansion. Periods of progress may be followed by stagnation, contraction, or renewal.

Delmar et al. (2003) provide important evidence for this argument. Their study of high-growth firms found that organizational growth can be achieved in different ways and that growth patterns over time can vary significantly across firms. This challenges the idea that growth firms follow one common path. McKelvie and Wiklund (2010) also argue that growth research should move beyond growth rate and pay attention to growth mode. Different growth modes may produce different developmental consequences. Organic growth may gradually increase complexity, while rapid expansion or acquisition-based growth may create immediate coordination and integration problems.

4.5. Multiple Possible Trajectories

Because SME development is shaped by internal complexity, external uncertainty, resource constraints, and discontinuous growth patterns, SMEs may follow multiple possible trajectories. Development may involve progression, but it may also involve stagnation, regression, retrenchment, renewal, or exit. This is the strongest reason why SME development should be understood as non-linear.

A progression trajectory occurs when the SME strengthens its market position, improves internal systems, and moves toward more coordinated development. A stagnation trajectory occurs when the firm remains active but does not significantly improve its capabilities, market position, or organizational condition. A regression trajectory occurs when the firm loses capabilities, market share, financial stability, or organizational coherence. Retrenchment occurs when the firm deliberately reduces activity, cuts costs, withdraws from markets, or restructures in response to pressure. Renewal occurs when the firm adapts, reconfigures, innovates, or rebuilds its competitiveness after difficulty. Exit occurs when the firm can no longer continue or when the owner chooses to close, sell, or leave the market (DeTienne, 2010; Levie & Lichtenstein, 2010).

5. From Static Stages to Developmental States

5.1. Defining Developmental States

The shift from static stages to developmental states represents a major conceptual movement in SME growth research. Traditional stage models usually classify SMEs according to a presumed developmental position, such as start-up, survival, growth, expansion, or maturity. A developmental state, however, refers to the current condition of the firm rather than its age, size, or assumed place in a fixed growth sequence. In this sense, the question changes from 'Which stage is the SME in?' to 'What developmental condition is the SME currently experiencing?' (Levie & Lichtenstein, 2010).

Developmental states are temporary and changeable conditions. They may reflect the firm's level of viability, internal stability, resource pressure, organizational strain, adaptive capacity, or need for renewal. This means that an SME is not permanently locked into one stage. It may move from expansion into strain, from strain into retrenchment, from retrenchment into renewal, or from viability into exit if it cannot survive. A state-based view is therefore important because it focuses on the firm's actual condition, not only on visible indicators such as size, age, or growth rate.

5.2. Difference Between Stages and States

The difference between stages and states can be understood through their underlying assumptions. Static stages are usually sequential, while non-linear states are multi-directional. Stage models often assume that firms move forward from one phase to another, whereas state-based thinking allows firms to move forward, backward, sideways, circularly, or through interrupted patterns. This distinction is essential because SMEs may not follow a clean path from start-up to growth and maturity. Instead, they may experience stagnation, decline, renewal, or exit at different points in their development.

Table 1: Difference between static stages and non-linear states

Static stages	Non-linear states
Sequential	Multi-directional
Predictable	Uncertain
Based on growth phases	Based on current developmental condition
Implies progress over time	Allows progress, decline, renewal, or exit
Often linked to age or size	Linked to capability, pressure, and adaptation
Movement is mainly forward	Movement can be forward, backward, circular, or interrupted

The static stage view is useful because it organizes SME development into recognizable phases. However, its weakness is that it may imply too much order and predictability. Phelps et al. (2007) argue that many life-cycle models rely on assumptions of linearity, sequentiality, determinism, and invariance. In contrast, developmental states are not fixed steps in a universal sequence. They are conditions that can appear, disappear, repeat, or overlap depending on the firm's internal capacity and external environment.

5.3. States Explain SMEs Better Than Stages

Developmental states explain SMEs better than static stages because they can capture the diversity of real SME trajectories. Stage models tend to emphasize progression, while states allow for several possible directions: growth, stagnation, decline, restructuring, recovery, renewal, or exit. This is important because SME development is not always a story of continuous expansion. Some firms grow rapidly and then collapse. Others remain small but stable. Some experience crisis and later recover. Others appear mature but become rigid and vulnerable to decline. The state-based view also avoids the problem of using age and size as simple proxies for development. Two firms of the same age and size may face very different developmental realities. One may be moving toward expansion, another may be experiencing internal strain, and another may be preparing for renewal after decline. Hanks et al. (1993) support this idea by arguing that life-cycle stages should be understood as configurations of organizational context and structure rather than simple chronological categories.

5.4. State-Based Thinking as a Response to the Linearity Trap

State-based thinking should not be understood as a complete rejection of stage models. Stage models remain useful because they identify common developmental challenges and provide a simple language for describing firm growth. Their limitation appears when they are treated as universal, fixed, or predictive pathways. State-based thinking improves stage-based thinking by adding movement, uncertainty, reversal, and adaptation.

A state-based view responds to the linearity trap by allowing SME development to be understood as a dynamic process. It recognizes that SMEs may progress, stagnate, regress, retrench, renew, or exit. It also recognizes that movement between conditions may be caused by internal pressure, external uncertainty, resource limitations, managerial responses, or strategic adaptation. In this view, SME development is not a ladder that firms climb step by step; it is a changing trajectory shaped by the interaction between the firm and its environment.

6. Proposed Non-Linear States of SME Development

The previous sections argued that SME development cannot be fully explained through fixed, sequential stages. Instead, SMEs should be understood as moving through different developmental states. These states are not universal steps that all firms must pass through. They are temporary conditions that reflect the firm's current situation, internal capacity, external pressure, and ability to adapt. This section proposes five non-linear states of SME development: foundational viability, coordinated expansion, strain and misalignment, retrenchment and reconfiguration, and renewal and adaptive competitiveness.

6.1. Foundational Viability

Foundational viability refers to the condition in which an SME is trying to establish basic survival and operational existence. At this state, the central question is whether the firm can create enough value to continue operating. The SME must validate its product or service, attract customers, generate revenue, control basic costs, and determine whether its business model is workable. This state is close to what classical growth models describe as the early existence or survival phase, but the state-based view does not treat it as only the first step in a fixed sequence. A firm may return to foundational viability after crisis, market loss, restructuring, or strategic failure (Churchill & Lewis, 1983; Garnsey, 1998).

The foundational viability state is characterized by high uncertainty, limited resources, informal systems, and strong dependence on the owner or founder. The firm's main challenge is not expansion but survival and validation. It may still be searching for a stable customer base, testing product-market fit, developing basic routines, and learning how to manage cash flow. Because systems are usually informal, decision-making is often centralized around the owner-manager. This gives the firm flexibility, but it also increases vulnerability if the owner lacks managerial capacity, financial discipline, or market knowledge.

6.2. Coordinated Expansion

Coordinated expansion refers to the condition in which an SME is growing and must manage that growth more systematically. The firm is no longer only concerned with basic survival. Instead, it must handle increasing sales, more customers, more employees, broader operations, and greater managerial complexity. This state requires stronger coordination because growth creates new demands that informal systems may no longer be able to manage.

Classical growth models often recognize this problem. Churchill and Lewis (1983) describe later stages of small-business growth as involving increasing complexity, delegation, managerial systems, and financial control. Greiner (1972) also shows that organizational growth creates new managerial problems, where practices that once supported growth may later produce crises of leadership, autonomy, control, or coordination. In a non-linear state-based view, coordinated expansion is not treated as a guaranteed stage after survival. It is a condition that emerges when growth is supported by sufficient internal coordination.

6.3. Strain and Misalignment

Strain and misalignment refers to the condition in which an SME may be operating or even growing, but its internal capacity does not match the demands placed upon it. This is one of the most important states in a non-linear view because it shows that growth is not always healthy development. A firm may appear successful because sales are increasing, but internally it may suffer from cash-flow pressure, leadership overload, weak coordination, operational bottlenecks, or declining strategic fit.

This state is supported by the critique of linear growth assumptions. Garnsey (1998) argues that solutions to one growth problem may create new problems later, which means that growth can generate new tensions rather than simply produce progress. McKelvie and Wiklund (2010) also argue that growth research should pay attention to how firms grow, not only how much they grow. Strain and misalignment may occur when market demand increases faster than the firm's internal systems. It may also occur when the owner-manager cannot delegate, when financial

control is weak, when employees lack clear responsibilities, or when the firm's strategy no longer fits market conditions.

6.4. Retrenchment and Reconfiguration

Retrenchment and reconfiguration refers to the condition in which an SME reduces, restructures, or reorganizes its activities in response to pressure. This may involve cost reduction, downsizing, market withdrawal, debt control, operational restructuring, business model adjustment, or reallocation of resources. In a linear view, contraction may be interpreted mainly as decline or failure. In a non-linear view, however, retrenchment may also become a pathway to recovery and renewal.

Turnaround research supports this interpretation. Pearce and Robbins (1993) explain how firms respond to decline and recover from poor performance. Barker and Mone (1994) discuss the relationship between retrenchment and turnaround, showing that retrenchment can be understood either as part of recovery or as a consequence of decline, depending on the firm's strategic condition and response. For SMEs, retrenchment and reconfiguration may be especially important because small firms often lack the financial reserves to absorb long periods prolonged strain. Contraction may therefore help stabilize the firm and create space for future adaptation.

6.5. Renewal and Adaptive Competitiveness

Renewal and adaptive competitiveness refers to the condition in which an SME adapts, recovers, innovates, or repositions itself after pressure, stagnation, or decline. This state is important because it shows that SME development does not end with maturity, nor does difficulty necessarily lead to failure. An SME may use crisis, retrenchment, or stagnation as a trigger for learning, reconfiguration, and strategic renewal.

This state is supported by dynamic capability theory, which emphasizes the firm's ability to adapt, integrate, build, and reconfigure resources in changing environments. Teece et al. (1997) argue that dynamic capabilities allow firms to adapt and reconfigure competences under conditions of technological and market change. Eisenhardt and Martin (2000) similarly describe dynamic capabilities as identifiable processes that help firms respond to dynamic markets. Renewal and adaptive competitiveness may involve innovation, new market direction, improved organizational learning, digital adoption, product or service redesign, strategic repositioning, or new partnerships.

Table 2: Proposed non-linear states of SME development

State	Core meaning	Key characteristics	Main risk
Foundational viability	The SME is trying to establish basic survival and business model viability.	Customer search; market validation; limited resources; owner dependence; informal systems.	Failure to establish a viable business model.
Coordinated expansion	The SME is growing and must manage increasing complexity.	Increasing sales; need for delegation; stronger systems; operational control.	Growth becomes faster than internal capacity.
Strain and misalignment	The SME is under pressure because internal capacity does not match external demands.	Leadership overload; cash-flow pressure; weak coordination; bottlenecks.	Growth becomes internally unsustainable.
Retrenchment and reconfiguration	The SME reduces or restructures activities in response to pressure.	Cost reduction; market withdrawal; restructuring; business model adjustment.	Retrenchment becomes unmanaged decline.
Renewal and adaptive competitiveness	The SME adapts, innovates, or repositions	Strategic renewal; innovation; new market	Renewal remains superficial or temporary.

itself after pressure or stagnation.	direction; organizational learning.
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7. Transitions Between SME States

The proposed non-linear states should not be understood as fixed categories in which SMEs remain permanently. Rather, they represent temporary developmental conditions that firms may enter, leave, revisit, or move across over time. This is the central difference between a static stage view and a non-linear state-based view. In traditional stage models, movement is often presented as sequential progression from one stage to the next. In contrast, a state-based view recognizes that SMEs may move forward, backward, circularly, or discontinuously depending on internal conditions and external pressures (Levie & Lichtenstein, 2010).

7.1. Movement Between States

Movement between SME states is caused by the interaction between internal conditions and external pressures. Internally, transitions may be triggered by changes in managerial capacity, leadership quality, financial control, operational systems, resource availability, coordination, and strategic decision-making. Externally, movement may be shaped by market change, competition, technological disruption, regulation, crisis, economic instability, and shifts in customer demand. Therefore, SME development cannot be explained only by the passage of time or by firm size.

Garnsey (1998) argues that firm growth involves matching resources and opportunities, but also notes that solutions to one growth problem may create new problems later. This means that SME transitions are not always smooth. A firm may solve an early survival problem by attracting customers, but this success may later create new problems related to production capacity, cash-flow control, coordination, or leadership overload. Phelps et al. (2007) similarly suggest that growth is better understood as a response to changing problems and learning challenges than as automatic progression through predetermined stages.

7.2. Forward Movement

Forward movement occurs when an SME improves its developmental condition. This does not necessarily mean that the firm becomes larger in size. Rather, forward movement means that the firm becomes more viable, coordinated, adaptive, or competitive. For example, an SME may move from foundational viability to coordinated expansion when it secures a stable customer base, improves cash flow, develops basic routines, and begins to manage growth more systematically.

A possible forward movement is foundational viability → coordinated expansion → renewal and adaptive competitiveness. This movement shows that SME development can involve progress, but not in the rigid sense assumed by classical stage models. The firm does not simply move from start-up to maturity because time passes. It moves forward because its internal capacity becomes better aligned with external opportunities. Forward movement may also occur after difficulty. An SME may experience strain, restructure its activities, and then enter a stronger renewal state.

7.3. Backward Movement

Backward movement occurs when an SME shifts into a weaker or more pressured developmental condition. This may happen when internal capacity fails to keep pace with growth, when financial pressure increases, when leadership becomes overloaded, when systems remain informal despite increasing complexity, or when market conditions deteriorate. In such cases, a firm that appears to be growing may actually move into a state of strain and misalignment.

A possible backward movement is coordinated expansion -> strain and misalignment -> retrenchment and reconfiguration. This movement is important because it challenges the assumption that growth automatically represents progress. An SME may expand sales and operations, but if it cannot manage cash flow, delegation, quality control, employee coordination, or customer demand, expansion may produce instability. Backward movement may also occur because of external shock, such as a sudden market downturn, regulation, supply disruption, or technological change.

7.4. Circular or Repeated Movement

A non-linear state-based view also recognizes circular or repeated movement. SMEs may repeatedly move between expansion, strain, retrenchment, and renewal. This pattern is especially likely when firms operate in uncertain environments, have limited resources, or face recurring market and financial pressures. Rather than progressing once through a fixed sequence, the SME may experience repeated cycles of growth, pressure, adjustment, and recovery.

A possible circular movement is coordinated expansion -> strain and misalignment -> retrenchment and reconfiguration -> renewal and adaptive competitiveness -> coordinated expansion. This circular logic is important because it shows that SME development is not a straight path. A firm may expand, become overstretched, restructure, recover, and later expand again. This repeated movement reflects the reality that SMEs often learn through experience, crisis, and adaptation.

7.5. Exit as a Possible Outcome

Exit should not be treated as a developmental state in the same way as viability, expansion, strain, retrenchment, or renewal. Instead, exit is better understood as a possible outcome when the SME cannot recover, adapt, or continue. Exit may occur after prolonged financial pressure, loss of market demand, failure to restructure, owner withdrawal, succession problems, or inability to respond to external change.

DeTienne (2010) defines entrepreneurial exit as the process by which founders leave the firms they helped create, removing themselves to varying degrees from ownership and decision-making. This definition is useful because it shows that exit is not always identical to failure. Exit may involve closure, sale, transfer, succession, merger, or other forms of withdrawal. In the context of SME developmental states, exit becomes especially relevant when the firm is unable to move from strain or retrenchment toward renewal.

Table 3: Transition patterns between SME states

Transition pattern	Example movement	Meaning
Forward movement	Foundational viability -> coordinated expansion -> renewal and adaptive competitiveness	The SME improves its developmental condition.
Backward movement	Coordinated expansion -> strain and misalignment -> retrenchment and reconfiguration	The SME moves into pressure, weakness, or restructuring.
Circular movement	Expansion -> strain -> retrenchment -> renewal -> expansion	The SME repeatedly adjusts, recovers, and grows.
Exit outcome	Strain -> retrenchment -> exit	The SME cannot recover or chooses to leave the market.

8. A Non-Linear View of SME Development

The previous sections can now be brought together into a review-based framework. The framework begins from the idea that SME development should not be understood as a fixed stage position. Instead, SME development begins from the firm's current developmental condition. This condition may reflect foundational viability, coordinated expansion, strain and misalignment, retrenchment and reconfiguration, or renewal and adaptive competitiveness. Each of these conditions captures a different way in which the firm may be surviving, growing, struggling, restructuring, or adapting.

The framework is built on three linked ideas. First, the SME's current state is shaped by internal capacity and external pressure. Internal capacity includes managerial ability, leadership, finance, systems, routines, coordination, and strategic decision-making. External pressure includes market change, competition, technological disruption, regulation, crisis, and broader economic uncertainty. Second, the SME may move between developmental states rather than remain permanently in one position. Movement may be forward, backward, circular, or interrupted. Third, the outcome of this movement may include progression, stagnation, regression, retrenchment, renewal, or exit.

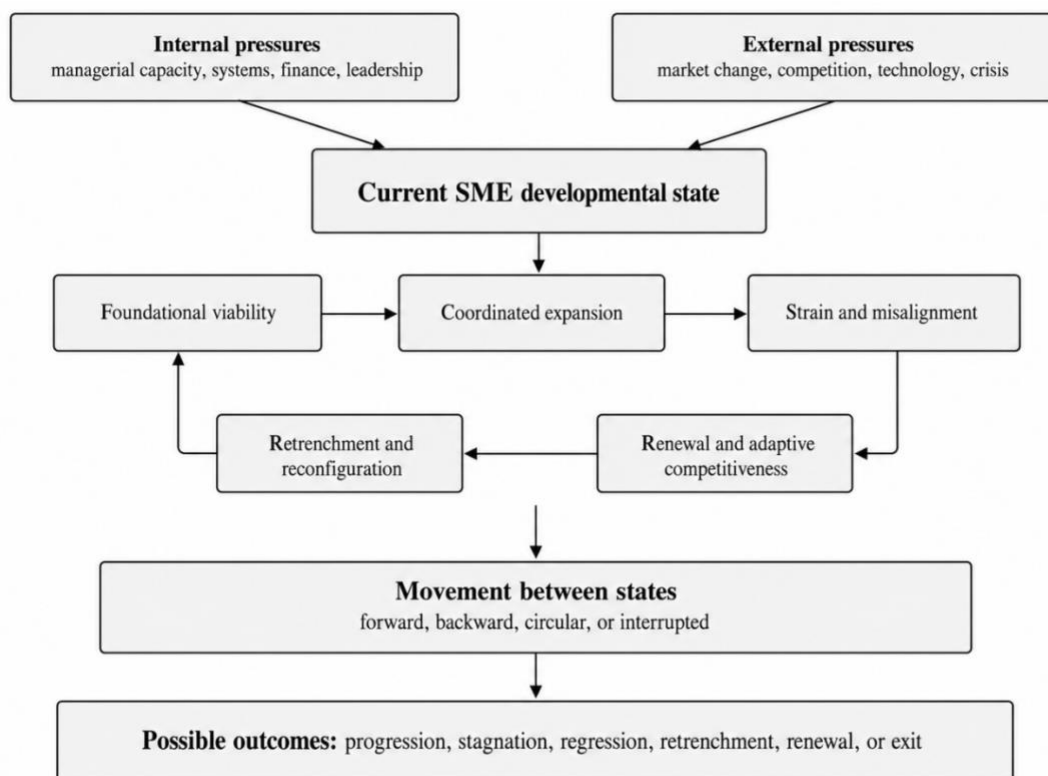


Figure 1: A non-linear state-based view of SME development

Figure 1 summarizes the core logic of the non-linear state-based view. Internal and external pressures shape the firm's current developmental state. This state may represent viability, expansion, strain, retrenchment, or renewal. The SME may then move between these states depending on whether its internal capacity can respond to external demands. As a result, the firm may progress, stagnate, regress, restructure, renew, or exit. The framework therefore shifts attention from fixed stage progression to changing developmental conditions.

This view does not reject the contribution of stage-based models. Instead, it extends them. Stage models help identify recurring developmental problems, but the non-linear state-based view explains why SMEs may not move through those problems in a single ordered path. It recognizes that a firm can move from viability to expansion, from expansion to strain, from strain to retrenchment, and from retrenchment to renewal. It also recognizes that an SME may repeat the same movement several times or exit when recovery is no longer possible.

Illustrative Transition Pathways Between SME States

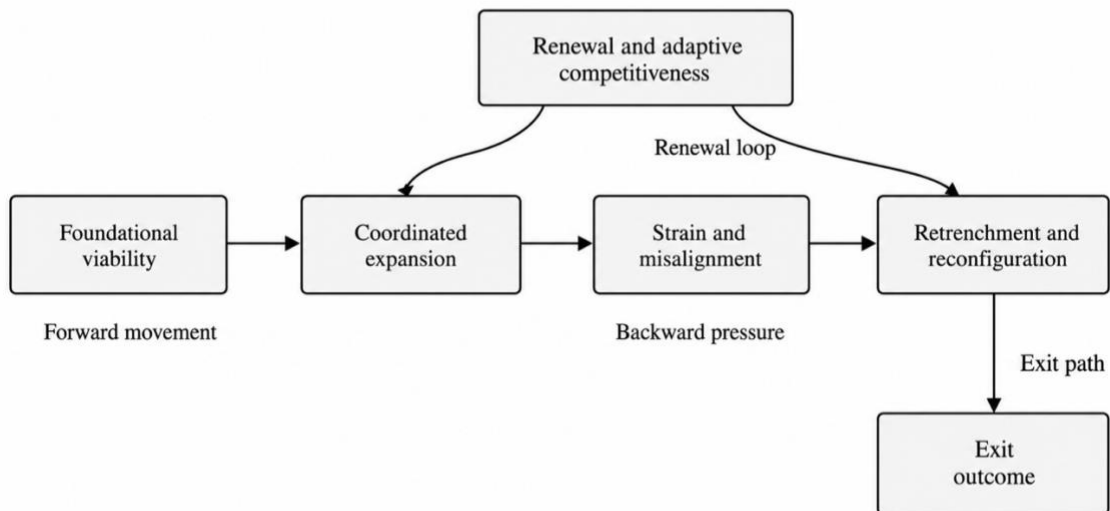


Figure 2: transition pathways between SME states

The framework also clarifies why growth should not be equated automatically with development. Growth may represent progress when it is supported by coordination and adaptive capacity. However, growth may also create strain when internal systems do not keep pace with demand. Similarly, contraction should not be equated automatically with failure. Retrenchment may lead to exit, but it may also support reconfiguration and renewal. This logic gives the review paper its central contribution: SME development is best understood as movement across changing states rather than as progression through universal stages.

9. Discussion

9.1. Rethinking SME Growth Beyond Sequential Models

This review contributes to SME growth literature by challenging the assumption that SME development should be understood mainly as movement through sequential stages. Traditional stage-based models have been valuable because they identify common developmental challenges associated with firm survival, growth, expansion, and maturity (Churchill & Lewis, 1983; Scott & Bruce, 1987). However, when these models are interpreted too rigidly, they risk presenting SME growth as more predictable and orderly than it actually is.

The central argument of this review is that SME development is better understood as a dynamic and non-linear process. SMEs do not necessarily move from start-up to growth and then maturity in a smooth sequence. Instead, they may progress, stagnate, regress, retrench, renew, or exit depending on their internal condition and external environment. This argument aligns with Phelps et al. (2007), who criticize life-cycle models for relying too heavily on assumptions of linearity, sequentiality, determinism, and invariance. It also follows Levie and Lichtenstein's (2010) critique of stages-of-growth theory.

9.2. Theoretical Value of Non-Linear States

The theoretical value of non-linear developmental states lies in their ability to explain SME development as movement across changing conditions rather than progression through fixed phases. Stage models usually describe firms according to categories such as existence, survival, growth, expansion, and maturity. However, developmental states describe the firm's actual condition, such as foundational viability, coordinated expansion, strain and misalignment, retrenchment and reconfiguration, or renewal and adaptive competitiveness.

This state-based view provides a more flexible explanation of SME development because it allows for movement in multiple directions. An SME may move from viability to expansion, from expansion to strain, from strain to retrenchment, or from retrenchment to renewal. The view also helps explain why growth does not always indicate healthy development and why decline does not always represent final failure. Retrenchment may create the conditions for reconfiguration and renewal when firms use contraction to stabilize operations, redirect resources, or rebuild strategic focus (Barker & Mone, 1994; Pearce & Robbins, 1993).

9.3. Implications for SME Research

This review suggests that SME research should move beyond the simple question of whether firms grow or do not grow. Instead, future research should examine the different developmental conditions that SMEs experience and the transitions between them. This requires more attention to instability, reversibility, stagnation, retrenchment, recovery, and renewal.

First, SME researchers should avoid treating age, size, or growth rate as sufficient indicators of development. A young firm may already be strategically capable, while an older firm may remain fragile and owner-dependent. Similarly, a growing firm may be internally strained, while a contracting firm may be reconfiguring for future renewal. Second, SME research should examine transition patterns more carefully. Instead of assuming a universal path from start-up to maturity, researchers should study how and why SMEs move between viability, expansion, strain, retrenchment, renewal, and exit. Third, future SME research should pay more attention to discontinuity and reversal. Longitudinal research is especially important because cross-sectional studies may capture only one moment in a much longer developmental trajectory (Delmar et al., 2003; McKelvie & Wiklund, 2010).

9.4. Implications for SME Practice and Policy

The non-linear state-based view also has implications for SME practice and policy. Policymakers, business development agencies, and SME support programs should not assume that all SMEs follow the same growth path or require the same type of support. SMEs may be similar in size or sector but differ significantly in their developmental condition. One SME may need support for basic survival, another may need help managing expansion, another may need restructuring support, and another may require assistance with renewal and adaptation.

For policy, the key implication is that SME development should be treated as diverse and non-linear. Programs that assume a universal growth pathway may fail to address the real problems firms face. A more effective approach would classify SMEs according to their developmental condition and transition risk. This would allow support systems to distinguish between firms that are ready to expand, firms that are under pressure, firms that need restructuring, and firms that have potential for renewal. In this way, the non-linear state-based view can support more realistic and responsive SME policy.

10. Future Research Directions

Although this review provides a conceptual explanation of the shift from static stages to non-linear states, further research is needed to develop and test this perspective empirically. Five future research directions are particularly important. First, future studies can empirically test different SME developmental states. Researchers can examine whether states such as foundational viability, coordinated expansion, strain and misalignment, retrenchment and reconfiguration, and renewal and adaptive competitiveness can be identified across different SME contexts. This would help determine whether the proposed states are conceptually useful and empirically observable.

Second, longitudinal research is needed to examine how SMEs move between states over time. Since SME development is dynamic, studies that follow firms across several years would be especially valuable. Such research could show whether SMEs move in forward, backward, circular, or interrupted patterns, and what conditions trigger these movements. Third, case studies can explore how SMEs recover from strain or retrenchment. Qualitative case research would be useful for understanding the mechanisms through which firms move from pressure to recovery, or from decline to renewal. This is important because the process of recovery may not be visible through quantitative growth indicators alone.

Fourth, quantitative studies can develop indicators for identifying developmental states. Future researchers could create measurement tools to assess whether an SME is in a condition of viability, expansion, strain, retrenchment, or renewal. These indicators may include measures of financial stability, managerial capacity, operational coordination, strategic fit, adaptability, and external pressure. Fifth, comparative studies can examine whether SME developmental states differ across industries, countries, and institutional contexts. SMEs in technology sectors may experience different transition patterns from those in traditional manufacturing, retail, or services. Similarly, SMEs in emerging economies may face stronger institutional uncertainty, financial constraints, or market instability than those in more developed contexts.

11. Conclusion

Stage-based models have played an important role in SME growth research by offering a simple and structured way to explain firm development. They help identify common challenges associated with survival, growth, expansion, and maturity, and they remain useful as descriptive frameworks (Churchill & Lewis, 1983; Scott & Bruce, 1987). However, their explanatory power becomes limited when SME growth is treated as linear, predictable, and universal.

This review has argued that SME development is better understood as a non-linear process shaped by changing internal conditions and external pressures. SMEs may grow, stagnate, regress, restructure, renew, or exit. Growth does not always indicate healthy development, and decline does not always indicate final failure. A firm may appear to be expanding while internally experiencing strain, or it may contract temporarily as part of a process of reconfiguration and renewal.

The proposed non-linear state-based view provides a stronger explanation because it focuses on the actual developmental condition of the firm. Instead of asking only which stage the SME occupies, it asks what condition the SME is currently experiencing and how that condition may change over time. By recognizing states such as foundational viability, coordinated expansion, strain and misalignment, retrenchment and reconfiguration, and renewal and adaptive competitiveness, this review offers a more flexible way to understand SME trajectories.

Overall, the movement from static stages to non-linear states does not completely reject stage-based models. Rather, it extends and improves them by allowing for instability, reversal, adaptation, and multiple possible outcomes. This perspective provides a more realistic foundation for understanding SME development as a dynamic process in which firms may progress, stall, decline, recover, renew, or exit.

Funding: Not applicable.

Conflict of Interest: The authors declare no conflict of interest.

Informed Consent Statement/Ethics Approval: Not applicable.

Declaration of Generative AI and AI-assisted Technologies: This study has not used any generative AI tools or technologies in the preparation of this manuscript.

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