

Theorizing ‘Variegated Bonding as SME Diversification Strategy’ to Extend Business from Traditional to Emergent Sectors

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Abstract

Few studies on diversification strategies address small and medium-sized enterprises (SMEs) and how they differ from large firms. Although related diversifications tend to be the approach for SME diversifications, we need to know more about unrelated diversifications by SMEs. This study focuses on the process of SME unrelated diversification and conduct ethnographic case study on a family business SME from Kyrgyzstan. The inductive process study offers variegated bonding as a possible process of SME diversification. The process consists of the three steps: appetizing, baby-stepping and reconstructing identity. This study extends the extant literature on SME diversification and investigates how the organizational aspiration of identity reconstructions could lead to the focal organization’s entry to an unrelated sector and establishing connectivity between its core and emergent sector organization that eventually alters its identity.

Keywords

Case study research, Kyrgyzstan, entrepreneurship, family business, process study, SME diversification, blockchain

Introduction

Small and medium-sized enterprises (SMEs) are not smaller versions of large firms (Bachtiar, 2020). Therefore, it is critical to study various facets of SME dynamics independently without grounding those into organizational theories developed on the empirical data on large domestic or multinational firms. In this case study, the author investigates the possibilities and process of SME diversification from established traditional sector to an emergent sector. This study asks: Why and how an SME from a traditional sector can diversify into emergent sector?

To find an answer, this study conducts reflexive (Alvesson & Sköldbberg, 2000) case study research on (Siggelkow, 2004) ‘Shoro’, ‘Supara’ and ‘Supara Chunkurchak’—SMEs with business in food,

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beverage and hospitality sectors that diversified into blockchain and cryptocurrency sector. The author was able to obtain unusual research access (Yin, 1981) that led to real-time, cinematographic (van de Ven, 1992) participant observation of the strategy process of change (Pettigrew, 1992) leading to deep insights into the organizational activities and rich dataset. For the data-analysis the study combined process study (Langley, 1999) and grounded theory approach (Gioia et al., 2013) that led to theorizing the process of Variegated Bonding as SME diversification strategy.

The study reveals that diversification to an emergent sector (Chen et al., 2020) could be driven by the organizational aspiration (Magron, 2014) to build the image as a modern organization. Such aspiration is fuelled by the organization's steady growth in core business enabling entrepreneurial appetite—motivation and resources in an emerging sector in the home country context. Yet, being SME with resource constraints (Bachtiar, 2020) and largely unfamiliar with the emerging sector, the organization adopts baby-stepping to engage into activities lower in the value-chain with low resource requirement. As the organization becomes familiar with the sector—it attempts to engage into activities more central to the sector. With cautious-venturing into the central activities with trial-and-error and even exits—the organization keeps searching for opportunities that would give it the identity it aspired (Corley & Gioia, 2004) and at the same time would give maximum chances to leverage the resources, capabilities and learnings of the core business.

This study labels the emergent strategy process consisting of 'appetizing', 'baby-stepping' and 'cycles of identity reconstruction' as 'variegated bonding as SME diversification strategy'. The word variegate means 'alter in appearance by adding different colours'. This process model of variegated bonding gets enacted by organizational aspiration of upgrading to a modern identity from its core identity of a traditional sector organization. Trying different possibilities in an identified emergent sector—the organization gradually moves toward altering (upgrading) its identity. This study makes contributions to the extant literature on SME diversification (Chen et al., 2020; Merino et al., 2014; Tallott & Hilliard, 2016) by showing how SMEs can overcome its resource constraints to enable unrelated diversification and altering identity while not losing focus on and disturbing its original businesses.

Research Context, Case and Method

To find an answer to this theoretical quest, this article looked for country-contexts where traditional family businesses were prominent. Central Asia with its post-Soviet contexts promised appropriate setting for the research. After the collapse of the Soviet Union in 1991, five countries were born in and constituted Central Asia. Mostly influential and powerful elites took over the government owned businesses and initiated new family businesses in the traditional sector (Monobayeva & Howard, 2015). This study zeroed on Kyrgyzstan—the country's recent push to democracy, traditional businesses by prominent families and emergence of new age information technology professionals and companies attracted our attention. Subsequent search for suitable case within this country context helped to identify 'Shoro', 'Supara' and 'Supara Chunkurchak'—a family business from Kyrgyzstan with leadership in food and beverages and hospitality in the Kyrgyz market that since 2017 have had interest in blockchain market. The next section describes these businesses in more detail.

Family Business: 'Shoro', 'Supara' and 'Supara Chunkurchak' from Kyrgyzstan that Diversified into Blockchain

On 29 May 1992, after the collapse of the Soviet Union, the Kyrgyz engineer and democrat Taabyldy Egemberdiev started his first venture. He asked his mother, Suiun apa, to brew two big barrels (40 litres

each) of Maksym—the national drink made of grains and milk. Taabyldy went to Osh bazaar, the biggest market in Bishkek, the capital of Kyrgyzstan, and sold the whole drink in just 2 hours. Starting from manual brewing 70 tons of Maksym per day, by 1998 Taabyldy was able to open a factory with automated production and bottling the national drink. In 1999, ‘Shoro’ acquired the bottling water line and was the first to sell the spring water ‘Legend’ in the market of Kyrgyzstan. The assortment line of ‘Shoro’ company now includes: spring and mineral water ‘Legend’, ‘Arashan’, ‘Baytik’, ‘Yssyk-Ata’; national drinks ‘Maksym’, ‘Chalap’ and ‘Aralash’; healthy snack bars ‘Momo’; and candies made from dry sour milk ‘Kurut’. The main shareholders of ‘Shoro’ were Taabyldy Egemberdiev, his brother Zhumadil Egemberdiev, and Keldibek Tumanov, a friend of Taabyldy. Now ‘Shoro’ is a leading SME in the beverage industry with 200–400 full-time employees (depending on the season) and annual revenue—\$6 million. It occupies half of the beverages’ market share in Kyrgyzstan and exporting products to Kazakhstan, Russia and the UAE. The main direct competitor of ‘Shoro’ in the market for national beverages is ‘Artezian’ company, the branch of local alcohol company ‘Ayu’, and the rest of the market is divided among small, mostly home-made producers. As for the market for water, the main competitors are ‘Coca-Cola Bottlers Company’ that sells ‘Bon Aqua’ filtered water, and ‘RG Brands Kazakhstan’ that sells ‘Asu’ water.

After establishing a successful beverage business, Taabyldy decided to expand to the restaurant service industry. In 2008 he founded ethno-complex ‘Supara’ in the suburb of Bishkek. The restaurant was projected and built fully by Taabyldy and his family members. The ethno-complex is reminiscent of the ancient Kyrgyz village with clay-made ‘homes’, real yurts (portable, round tent covered with felt and used as a dwelling by several distinct nomadic groups) and wooden pavilions. The restaurant serves the Kyrgyz traditional food like beshbarmak (noodles with meat) and boorsok (fried dough) in unique atmosphere of the ancient Kyrgyz lifestyle. Right from its start, ‘Supara’ became very popular among the locals and foreign guests. The famous people like the president of the Kyrgyz Republic in 2010–2011 Roza Otunbaeva or the world-famous Kyrgyz writer Chingiz Aitmatov were hosting their sons’ weddings in ‘Supara’. ‘Supara’ was the first ethno-complex in Kyrgyzstan, having no direct competitors from its beginning. However, now there are several ethno-style restaurants like ‘Dasmia’ and ‘Charpaya’ that provide the similar services (e.g., serving food, hosting events) in the traditional Kyrgyz atmosphere. Nevertheless, since ‘Supara’ was fully built with Taabyldy’s own hand, there are still no close competitors as guests can feel its uniqueness and originality.

‘Supara Chunkurchak’ was another fulfilled dream of Taabyldy Egemberdiev. He founded a yurt hotel in Chunkurchak mountain valley next to Bishkek in 2013. Taabyldy himself designed an innovative architecture for this hotel, where the yurts and lullaby-like homes are located on a hill and open the breath-taking view of the mountain forest. Chunkurchak valley had not been a tourist place before ‘Supara’ opened a hotel and restaurant there. At the same time, a ski resort was opened nearby by another entrepreneur. Now this is a highly attractive place that gathers many foreigners and locals that want to enjoy the view, ski, do camping or climbing and taste the exquisite cuisine. During summer time, people go there to escape the heat, while winter time is perfect for ski. Thus, the hotel is fully booked over the year and brings stable profits.

‘Supara’ and ‘Supara Chunkurchak’ were solely owned by Taabyldy unlike ‘Shoro’, which was co-owned by him, his brother and a friend. But all three were able to do high volume of business that generated healthy profits. Therefore, this allowed its owners to search for other business options, one of which was blockchain-based application.

Blockchain in Kyrgyzstan

Blockchain is a distributed peer-to-peer database that solves the double-spending problem of electronic money (Nakamoto, 2008). The advantages of the blockchain technology are decentralization,

transparency, immutability, automation and better resilience to attacks (Martino, 2021). Since each of the participants has a full copy of the information the blockchain contains, there is no single point of failure, that is, the system is free from third-party interference, which significantly reduces the time a transaction takes, and the resources spent on the mediation. Blockchain creates a truly democratic virtual society where peers are economically incentivized to maintain the order and check transactions against double-spending. With the development and improvement of the coding language and smart contracts, it has become possible to create decentralized applications of almost any purpose such as insurance, mortgage, healthcare, records management, which itself has a vast number of applications (Raj, 2021). One of the major applications of blockchain are cryptocurrencies—digital money mined to maintain the distributed network (Martino, 2021).

In Kyrgyzstan, ‘blockchain is still a relatively new phenomena without solid regulatory and government support’ (Anvar kyzy et al., 2022, p. 2). Neither general public, nor businesses were reasonably aware or interested in this technology in 2020 or earlier (Chudinovskikh & Sevryugin, 2019). Yet, cheap electricity rates and absence of any regulation before 2019 made cryptocurrency mining highly attractive and profitable form of business. The mining situation worsened due to the energy crisis in the country. Due to the shortage of electricity, a temporary ban on the issuance of technical specifications for mining was imposed in April 2019 (de Vries et al., 2022). It is important to note that mining is not illegal in Kyrgyzstan. There are no laws that prohibit cryptocurrency mining in the legislation of the country. Thus, on legislation level mining is not prohibited in Kyrgyzstan, in fact it is still suppressed by the State Committee of National Security. Energy crisis in the country, as a result—higher tariffs on electricity, mining tax, temporary ban and frequent raids on mining farms—all created unfavourable conditions for the further development of blockchain technology and mining in the Kyrgyz Republic (Doszhan et al., 2020). The emergence and collapse of the blockchain mining sector in the country gave an opportunity to identify the prominent players. Within that the author searched for ventures attempted to extend their business portfolio from traditional sectors. This search pointed out to ‘ArchiCoin’. The founder of ‘ArchiCoin’ was the CEO and co-owner of the family business ‘Shoro’, ‘Supara’ and ‘Supara Chunkurchak’.

Access, Data Collection and Analysis

This author, a citizen of Kyrgyzstan was studying the local blockchain start-ups. She was doing her PhD on the blockchain sector evolution in Kyrgyzstan. Analysing the backgrounds of the blockchain start-ups, she found out that ArchiCoin was co-founded by the CEO of ‘Shoro’ and the shareholder of ‘Supara’ and ‘Supara Chunkurchak’. She contacted the founders who agreed to her participatory organizational ethnography (Rosen, 1991) proposal. From 2017 to 2022, the author made regular visits to the organization engaging into participatory fieldwork.

Data were collected through participatory observations for five years. During participant observations, the researcher took detailed note of the observations. Barring the first three months of COVID lockdown (April–June 2020), she was able to obtain special permission from the regulatory authorities to continue her field research. Conversations were audio-taped subject to permission from the informants. The researcher also conducted forty-three interviews of the two co-founders of the blockchain venture and other key stakeholders including employees and customers. The data was triangulated (Baskarada, 2014) through archival data and netnography. Atlas.ti was used to store and organize the data.

For data analysis, the author combined process study and grounded theory approaches (Chatterjee et al., 2022) to inductively develop theory from a single case study. Our analysis followed six steps. In the first step, the author organized the data chronologically and developed a thick narrative of the organizational journey. Following the work of Gioia and Thomas (2016), the author arranged the data as a series of events constituted of triggers, decisions, actions and outcomes as shown in Figure 1.

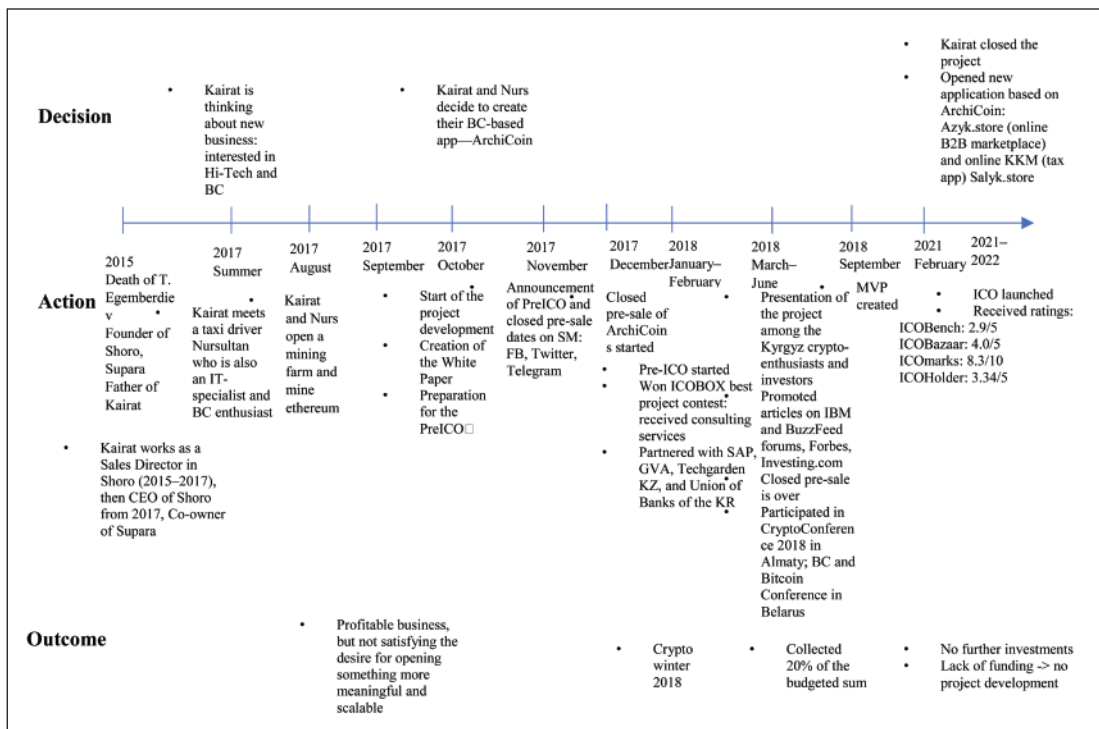


Figure 1. Flow of Decisions-Actions-Outcomes.

Source: The author.

In the second step, the author carefully analysed the narratives and applied temporal brackets (Langley & Montreal, 2007). In the third step, within each temporal bracket, she started open and descriptive coding. Through several round of revisions, she finalized a set of 25 first order codes. In the fourth step, she began axial, second order coding. The exercise produced 10 second order codes. Then she used free-hand drawing (Reinecke & Ansari, 2021) to plot the second order codes on a time scale. Such an exercise revealed that a set of codes is sequential and linear, and the other set is cyclic. In the fifth stage, she conducted higher order coding that led to third order theoretical dimensions. Table 1 represents the data structure.

In the final stage, the author went back and forth between extant literature, data and emergent theory to arrive at a dynamic model (Gioia et al., 2013). The process model revealed that the diversification in blockchain was the organizational exercise to reconstruct and upgrade its identity as a new-age conglomerate with interest in information technology. The approach resembled the variegated metaphor. It inspired the author to name the theoretical model as variegated bonding. In the next section, the findings and the theoretical constructs emerged from the data are presented.

Findings

The findings and subsequent interpretation reveal that the CEO and owner of the traditional business came through three distinct stages when he was looking for a diversification of his business. The first

Table 1. Data Structure.

Third Order: Dimensions	Second Order: Constructs	First Order: Descriptive Coding
Appetizing	Growing traditional business	<ul style="list-style-type: none"> – National beverages company ‘Shoro’ – Ethnocomplex ‘Supara’ and ‘Supara Chunkurchak’ – Fast-food franchise ‘Sonunduk’
	Emerging sector and talent availability in the country context	<ul style="list-style-type: none"> – IT-boom in the country – Interest in technologies that provide no censorship/third party intervention – Cheap electricity, attractive mining
	Need/inspiration to upgrade ‘identity’	<ul style="list-style-type: none"> – Urge to start own business – Looking for the truly ‘democratic’ business ideas
	Perspective sensemaking	<ul style="list-style-type: none"> – Availability of resources, IT-boom in the country and the attractiveness of the blockchain—triggers to open new venture
Baby-stepping	Combining complementarities	<ul style="list-style-type: none"> – Meeting the BC expert – Setting the mining farm
	Treading the water	<ul style="list-style-type: none"> – Mining ether gave confidence and understanding of the blockchain sector
Identity reconstruction through trial error	Boundary stretching	<ul style="list-style-type: none"> – From mining to creating own crypto – Starting the ArchiCoin project
	Pragmatic venturing	<ul style="list-style-type: none"> – Marketing efforts (bounties, articles, conferences) – Finding partners – Pre-sales, pre-ICO
	Decoding signals	<ul style="list-style-type: none"> – Crypto winter of 2018 – Missing the roadmap deadlines – ICO – Slow-down the sales of coins – No further budgeting – Feedback: ICO ratings – Closing the project
	Recombining	<ul style="list-style-type: none"> – Using the existing technology for opening other applications: Azyk.store and Salyk.store

Source: The author.

stage, appetizing, describes how the urge for the diversification along-side the available physical and mental resources and changing environment motivated the serial entrepreneur to look at an emerging sector in the Kyrgyz economy—blockchain. The baby-stepping stage shows how the entrepreneur was entering the market of blockchain by exploiting the available resources and trying a low-commitment activity—cryptocurrency mining. The final phase of cycles of identity reconstruction describes how the CEO’s involvement in the blockchain technology was increasing from mere mining to the new crypto creation and shows the path of trial-and-error and even exiting the market, but still leveraging the newly acquired resources, experience and learning into the core business. Appendices 1 and 2 show a collage of the traditional business products and outlets of ‘Shoro’, ‘Supara’ and ‘Supara Chunkurchak’. Appendix 3 shows a collage of the blockchain-based businesses. The following sections describe each stage of the variegated bonding in detail and provides insight on their interconnectedness.

Appetizing (Stimulating the Organizational Appetite)

Growing Traditional Business

It was a tough year, 2015, for the Egemberdiev's family that was marked by the death of Taabyldy Egemberdiev, the founder of 'Shoro', 'Supara' and 'Supara Chunkurchak'. After the death of Taabyldy, the shares of the family business were distributed among his closest family members. Kairat Egemberdiev, his middle son was chartered to work in 'Shoro' as a sales director and co-owner at first (in 2015), and then as a CEO (since 2017). He also became one of the major shareholders of 'Supara' and 'Supara Chunkurchak'. The other shares were inherited to Taabyldy's wife, Zhanylsynzat. The businesses continued to operate successfully, steadily growing by offering new products, such as protein bars by 'Shoro' and premium chocolates by 'Supara', opening a new fast-food franchise 'Sonunduk' and looking for further market expansions. Still, steady and naturally growing traditional facility business with not much scope of innovation created a sense of restlessness in Kairat. The stable and successful businesses gave Kairat the mental space and physical resources to look for the opportunities beyond the traditional business. Kairat wished to open his own business free from the family influence. In 2017 he started a search for the new venture possibilities, and the next generation Hi-Tech business caught his attention.

Emerging Sector and Talent Availability in the Country Context

One of the most dynamically evolving sectors in the Kyrgyz economy could be attributed to the IT-industry. According to Abakirov (2017), the founder of Hi-Tech Park, Kyrgyzstan was experiencing the rapid increase in the number of IT-companies (both local and international), start-ups and IT-students, and was steadily integrating with the global Hi-Tech market. Blockchain was extremely popular opportunity area in 2017. Kairat learned about it from his close friend and became very interested in this technology. He spent hours on studying the concept of blockchain operations and was astonished from the advancement of the system that did not need any central authority to operate. This was a promising emerging market, so Kairat started searching for like-minded people who were expert of the blockchain technology. It was a real challenge for a person outside the IT-industry at the time where blockchain just started being recognized among the general population.

Inspiration to Upgrade the Family Business 'Identity'

The more Kairat learnt about the blockchain, the more he felt the urge to upgrade the 'traditional' identity of the family business and to venture into the technology sector. Yet, he felt constraint since he did not have full discretion over his managerial decisions as those needed approvals of other key shareholders in the family. Next generation businesses like blockchain seemed to be exotic to integrate into the existing business to upgrade the organizational identity. Kairat shared:

I always favoured new technologies. I think we need to expand our horizons and boundaries, be open-minded and try to grasp the best the modern world can offer us. I like blockchain because it is free from any censorship or third-party intervention. It is such a great technology! Back in 2017 there was little awareness about this technology in Kyrgyzstan, so I saw it as a great opportunity to enter an unknown yet promising market. (Interview)

Prospective Sensemaking

As the need for organizational identity reconstruction and his personal aspirations converged, Kairat felt the hunger to start a new venture. He had enough physical and mental resources that traditional business provided him, he saw how IT-sector was booming in the country, and most importantly he

liked the idea of freedom that blockchain technology promoted. Freedom from third party intervention, freedom from state or corporate surveillance over one's transactions or data. Kairat always likes to cite his father's words: 'I admire the Kyrgyz people, because it is impossible to kill the spirit of freedom inside us'. Therefore, three reasons converged—own readiness, market call and appealing potential, and prospects that blockchain offered—all stimulated the appetite to enter the unknown sector.

Baby-stepping

Just like babies who are cautious and need parental support when taking their first steps, Kairat was cautious not to jeopardize the resources and reputation of stable businesses. He did not want to take much risk by heavily investing into a little-known industry. He was looking for the partners and experts in this field.

Combining Complementarities

One summer evening of 2017, Kairat was coming home from 'Shoro' factory. He was thinking about blockchain, bitcoin, mining and other related stuff, and accidentally asked the taxi driver if he ever heard about these concepts. Surprisingly, Nursultan (the taxi driver) was a blockchain enthusiast who also owned and operated a taxi in his free time to support his IT-skill developments. During the entire ride, they talked about blockchain and its possible applications and decided to meet next day to discuss it further. This random connection between software engineer and a businessman led to a fruitful cooperation that were continuing during the entire period of the study. Eventually, the two joined hands and set up a blockchain mining farm in the basement of Kairat's facility and started mining Ethereum cryptocurrency in August 2017. It took them several days to mine each Ethereum that was traded at \$380 at that time (in August 2022 its price was around \$1,600). Mining required fixed cost of initial investments in mining rigs, and variable cost of electricity. No cooling was required as the basement had the necessary temperature needed to run the computers. This activity did not require heavy investment at that moment, but it gave Kairat what he was looking for—first-hand knowledge about the blockchain technology as well as the sector.

Treading the Water

The mining activities gave founders the confidence in and understanding of the blockchain industry. Kairat said:

It was important for me to look how things work before I commit myself into something more serious. One thing is to read or hear about crypto and mining, but when things come real in few days you can learn more than you have studied for almost a year. That was priceless experience that made me believe to raise the stakes. (Interview)

Mining was proved to be a profitable business for them. The break-even was attained quickly. However, once set-up, the operation was mechanical and did not require any further expertise or skills. Very soon Kairat found it 'not very exciting' and that he wanted to go up in the value-chain and offer his own crypto. The acquired mining experience gave him understanding of the crypto market, so he felt more confident to commit to more serious projects. Nursultan seemed to be a reliable and skilful partner, so Kairat decided to go further and create his own crypto.

Dynamic Identity Reconstruction

Boundary Stretching

Kairat and Nursultan decided to upscale their business from simple mining to creating their own coin. In September 2017 they arrived at the idea of ArchiCoin—a distributed storage database that was using the stable cryptography. In other words, they wanted to create a data storage on a blockchain platform rather than cloud systems like Google Drive or Drop Box. Thanks to the distributed feature ArchiCoin could have provided complete safety of one's stored data. No illicit access, no use of information for commercial purposes, cheap data storage—these were the main advantages of ArchiCoin project for users.

Miners were also welcomed to join the community of peers and help to sustain it by mining ArchiCoins (checking the transactions against the protocol) and getting coin rewards. The more peers are involved, the more resilient the community to hackers' attacks, the higher the price for the cryptocurrency. Thus, it was crucial to market this decentralized application among the vast community of crypto enthusiasts as well as regular users who are interested in safer and cheaper data storage options.

Pragmatic Venturing

In October 2017, Kairat and Nursultan initiated the ArchiCoin project. Nursultan wrote the white paper where he provided the project specifications. They opened social media pages on Twitter, Facebook, Telegram, and started preparing for the PreICO (Initial Coin Offering—the first sale of cryptocurrency). Kairat and Nursultan's main goal was to promote their project and sell as many ArchiCoin as possible to get funds for the further development of the technology.

To get visibility in the crypto world they attended three crypto conferences in January–February 2018—one in Bishkek, Kyrgyzstan; the second in Almaty, Kazakhstan; and the third one was in Minsk, Belarus. They met with crypto influencers and investors, promoted ArchiCoin project and received constructive feedback. It was so new for Kairat, but he genuinely enjoyed the new atmosphere and absorbed new terms, concepts, rules 'just like a sponge'. In spring 2018, they applied and won the best project contest conducted by ICOBox team and received their consulting services as a prize.

Nursultan learned how to improve the technical specifications of the project as well as how to attract more peers. Around the same time, they promoted the project on platforms such as IBM forum, Forbes, Buzzfeed, etc. Kairat managed to get partnership with SAP, Techgarden KZ and the Union of Banks of the Kyrgyz Republic in conducting the escrow payments. All these efforts were aimed at penetrating the crypto market and getting recognized among the hundreds of crypto start-ups before the ICO.

Decoding Market Signals

The ArchiCoin was gradually getting attention and recognition in the crypto community. The team got over 12,000 subscribers combined on social media. However, in January 2018 the Great crypto crash or a Crypto winter happened when the price of most cryptocurrencies crashed for almost 18 months. As a result, investors shunned the crypto market, and it became extremely difficult for start-ups like ArchiCoin to attract the investments by pre-selling their crypto. Nevertheless, by the middle of 2018 Kairat and Nursultan managed to collect 20% of the total budget required to fund the project. These money were paid to the crypto influencers to promote the ArchiCoin and used as a consulting and service fee for placing the project on crypto exchanges.

By September 2018, Nursultan was able to create the MVP of the ArchiCoin. But because the pre-sales of ArchiCoin generated less funds than expected, the project's roadmap deadlines were missed. This, alongside with the prolonging cryptocurrency market fall slowed down the subsequent development of the ArchiCoin for almost two years. Finally, on 10 February 2021, ArchiCoin went on ICO—it was listed on IndoEx crypto exchange. But it received mixed ratings from the ICO rating agencies: ICOBench—2.9/5; ICOBazaar—4.0/5; ICOmarks—8.3/10; ICOHolder—3.34/5. Overall, it was criticized for the low activity in recent years. As a result, ICO was not successful, the ArchiCoin price did not move from the very first day of ICO as there was no demand for it. Therefore, without funding, the further development of the project was not possible. Even though it was painful for Kairat, he decided to stop and close ArchiCoin.

Recombining—Enabling a New Cycle

Certainly, Kairat was upset with the close of his first venture. But the experience he acquired during this first technological start-up helped him to reshape his identity from being a traditional entrepreneur to a Nextgen businessman. He did not want to give up on innovations and technology, but this time he wanted to make them part of his existing business. Thus, he and Nursultan founded two new applications—Azyk.store and Salyk.store. Azyk.store is a B2B marketplace for making wholesale orders by the retailers in the food industry. Salyk.store is a mobile cashier and tax application. Both were using database technologies developed earlier for the ArchiCoin. Currently Azyk.store is used in 'Shoro', so it is retail customers can place orders via this mobile application at any day and time. Before this application, orders were placed by directly calling the sales agents during their working hours. Kairat says that after incorporating Azyk.store, 'Shoro' earns additional \$200,000 per year as it has automated the sales order system. As for the other application, Salyk.store, it has not been released till July 2022. While the author was concluding the field work, Salyk.store faced the final corrections before the commercial release. Therefore, the cross-business resources (and residuals) from the blockchain project were applied for new business possibilities, hence starting another identity reconstruction cycle. I am calling this process 'variegated bonding' as the identity gets altered through the realization of different possibilities grounded in both core business and emergent sectors. Figure 2 summarized the findings and presents the process model of variegated bonding for SME diversification.

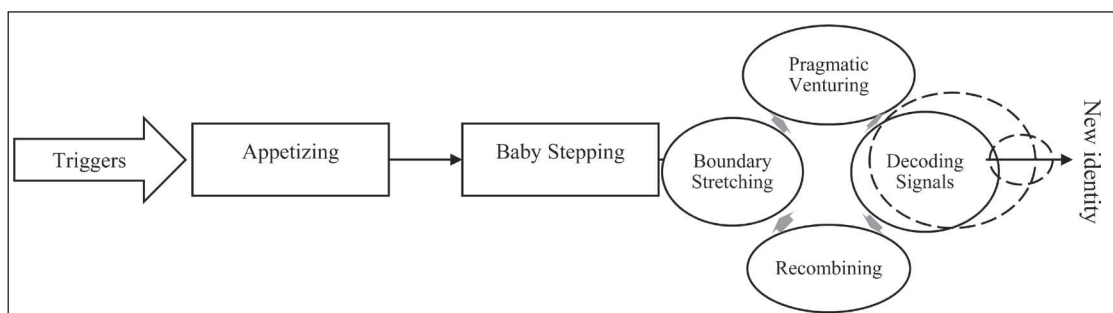


Figure 2. A process model of Variegated Bonding for SME Diversification.

Source: The author.

Discussion

A Process Model of SME Diversification from Traditional to Emerging Sectors

The SME diversification process model of variegated bonding is anchored into a steady and established organization's aspiration to reconstruct its core identity from a traditional sector company to a modern organization with interest into the emerging fast-moving sector such as information technology. The process begins with appetizing—through which the leadership gains motivation and identifies a sector to venture-in.

SMEs are constrained by resource availability and may find it challenging to obtain the necessary background, knowledge and skills to identify a suitable sector to venture-in. The sub-process, baby-stepping, enables the organization to overcome the limitations. Leveraging or extending personal networks and connections the organization identifies and teams up with experts who possess skills and knowledge complementary to that of the organization. That arrangement helps the organization to detect a low-cost opportunity in the target sector and low entry barrier. Such treading into the water within the target sector helps the focal organization to develop a first-hand understanding of the sector for venturing.

Dynamic identity reconstruction begins next when the focal organization ventures into the identified opportunities. It cautiously mobilizes resources to develop products and services. Once again, being an SME—it seeks external support, opinion and assurances while developing the business. It decodes the environmental responses and stays pragmatic even to exit the venture. But once again, following the SME characteristics it tries to see whether the learning and generated resources could be utilized to extend its core line of businesses or diversify into businesses related to its core businesses.

In a way, the exercise, helps the organization to alter its identity while staying connected to its core line of businesses. Overall, the organization, in a journey to reconstruct its identity, cautiously ventures into emerging sector, understands the sector through baby steps and develops elements within the new sectors eventually connecting those elements to its core sector. This novel approach resembles 'variegate, which means, alter in appearance, especially by adding different colors' (Merriam-Webster, n.d.). Variegated bonding could be a low-cost, low-risk SME approach to pragmatically diversify into an emerging sector, identify and develop elements within the sector that could be leveraged to enhance or strengthen its original line of businesses. In the process, the organization upgrades its identity and becomes a player operating at the intersection of traditional and emerging sectors.

Contributions

The study makes three important contributions to the extant understanding of SME diversification. First, appetizing reveals that success of SMEs in traditional business can inspire the leadership to renew its identity as a 'modern organization' with interests in both traditional and emerging sector. It shows that SMEs can undertake diversification strategies toward altering its identity as a new-age organization. Second, baby-stepping points out to an approach of entering a territory unfamiliar to the SME with resource limitations. Rather than investing significantly at the beginning, the organization attempts proactive de-risking by engaging into activities that does not require significant resources and capabilities but helps the organization to enter and experience the sector.

Third, it shows how cycles of trial-and-error become a core approach not only to try pragmatic initiatives in the sector but also to finalize and settle into activities that are related to the core businesses—making it easier for the SME head to oversee the core businesses in the traditional sectors and new businesses in the emergent sector. Overall, the process of variegating shows how SMEs can diversify into emerging sectors but at the same time can include the new (and apparently unrelated) businesses to

the existing SME organizational structure. Diversification strategy for SMEs therefore could be less of intended but more of emergent strategy.

Limitations and Future Research

The study is limited by several boundary conditions. First, the theory is applicable when the diversification is driven by the organizational aspiration of being identified as a modern organization supported by the organization's ability to mobilize resources from its successful ventures. This model might not work when diversification strategy is enacted by the focal organization's concerning performance in its core sectors or the declining performance of the overall sector. Second, the change in strategy of diversification might have been influenced by change in the sectoral dynamics, for example, government sanctions on crypto. The theorization does not include such external factors. Third, the CEO of the focal organization of the study was allowed to have a free hand on the business decision. The family business SMEs with multiple stakeholders might have added further complexities to the strategy process. Future research should improve the proposed process model of the study by considering the dynamics of SME diversification reasons, environmental shifts and family business features to the model.

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Declaration of Conflicting Interests

The author declared no potential conflicts of interest with respect to the research, authorship and/or publication of this article.

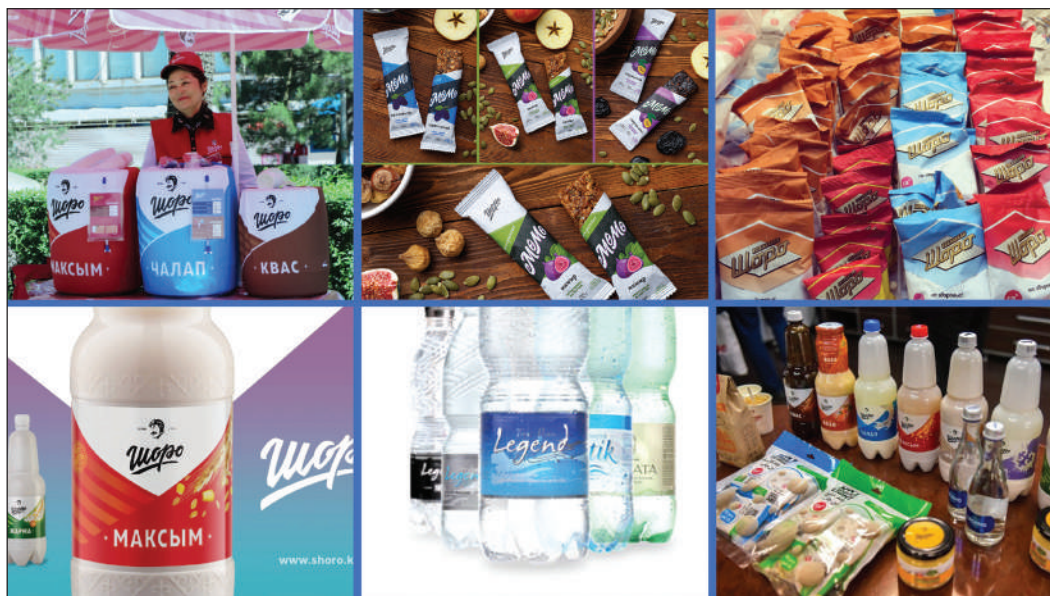
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Appendix



Appendix 1. Products of 'Shoro'.

Source: Archival data from 'Shoro'.



Appendix 2. Facilities of 'Supara'.

Source: Archival data from 'Supara' and 'Supara Chunkurchak'.



Appendix 3. Logos of three applications—ArchiCoin, Azyk.Store, Salyk.Store that Enhances the Company's Existing Line of Business by Using Blockchain Applications.

Source: Archival data from 'ArchiCoin' founders.

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