

## IDENTIFICATION AND ANALYSIS OF ENTREPRENEURIAL STRATEGIES PRESERVING SCHUMPETERIAN RENT

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### Abstract

**Purpose-** As any increase in the price of resources and any imitation by competitors decrease entrepreneurial rent, the entrepreneurs should use some kind of strategies to preserve this rent. We used resource based view as a lens for finding these strategies.

**Design/methodology/approach-** For conducting this research, qualitative method was used and qualitative research questionnaire was formed based on Peteraf model, 15 entrepreneurial companies have participated for completing this study.

**Findings** A total of 13 strategies have been identified and analyzed which are: Pioneering strategy, Economy of Scale, Establishing reputation and brand, Creating continuous innovation, Secrecy and ambiguity strategy, Franchise development, Control of resources, Legal barriers, Compromise with competitors, Selecting strategic location for business, Sharing profit with resource owners, Supplier diversification and Vertical integration.

**Research Implications-** Entrepreneurs can use these strategies to preserve their rent. In addition, the researchers can use these results for further research and developing the literature of entrepreneurial strategies which was not rich before presenting this research.

**Originality/value-** This is the first qualitative research which tries to identify entrepreneurial strategies through the resource-based view lens. Furthermore the research tries to differentiate entrepreneurial strategies from non-entrepreneurial strategies for the first time.

### Conceptual Paper

**Keywords:** Entrepreneurial Strategies, Resource-based View, Entrepreneurial Rent, Imitation Barrier Strategies, Qualitative Research Method.

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## **Introduction**

In the last decades, as a result of attempts to develop a definition of entrepreneurship, entrepreneurial strategies were reviewed from a different perspective. Due to the lack of an appropriate definition for entrepreneurial strategies, various strategies have been proposed under the same name; some of those do not differ from business strategies. Although some researchers have attempted to define entrepreneurial strategies and others like Drucker (2001, chap. 12) and Shane (2003, chap.9) identified some of these strategies as being entrepreneurial, the literature of entrepreneurial strategies is not rich enough. In this respect, there has been no comprehensive attempt to differentiate between entrepreneurial and non-entrepreneurial strategies or to recognize entrepreneurial strategies. This lack of literature pertaining to entrepreneurial strategies, might be a result of diverse and vague definitions of entrepreneurship, failure of some researches in distinguishing entrepreneurship from business, or the lack of a proper research structure for identifying such strategies. If we define strategy, as a company's principles in achieving competitive advantage (Barney, 2002), then in order to identify entrepreneurial strategies we should adopt an approach which anticipates prerequisites of achieving competitive advantage.

One of these approaches which discusses competitive advantage and prerequisites of gaining competitive advantage is the resource-based theory. This approach which was introduced at the end of the last century and culminated in the works of Barney (1991) and Peteraf (1993), proposes a framework for achieving competitive advantage. Barney mentions some characteristics of the resources with the potential of being considered as the source of competitive advantage (Barney, 1991). Peteraf on the other hand, proposes a conceptual model and describes resource-based theory in different words. This model will constitute the base of the present research.

This study is the first research which surveys entrepreneurial strategies preserving Schumpeterian rent on a resource-based point of view. In this study, researchers attempted to distinguish between entrepreneurial and non-entrepreneurial strategies as far as possible and by using the model of Peteraf, and to identify ex-ante and ex-post limitation requirements. If competitors succeed in offering the very same product/service or the price of the resources gets high, the profit of the first mover will be lost; so maintaining ex-ante and ex-post limitation through entrepreneurial strategies is essential.

Therefore, in this study we try to find an answer for the question of "what strategies entrepreneurs use to preserve Schumpeterian rent?" after reviewing research literature -definitions, the model and the supporting data- and also methods of data collection and analysis, the findings of this research which is 13 entrepreneurial strategies will be presented. In the last section, the research findings are discussed and there is some suggestion for the further research.

## **Literature review**

Definitions of entrepreneurial strategies are diverse and contradictory. Amii, Brigham and Markman (2001) define entrepreneurial strategies as inter-organizational phenomena; however Drucker (2001) views entrepreneurial strategies as methods and policies being used outside of the business entity and the market. He believes that entrepreneurial strategies are different from enterprise management. Some researchers relate these strategies to questions associated with operational environment of the organization: where is the location of market gaps? How can an organization differentiate itself in a sustainable manner (Morris et al, 2008)? On the other hand Miller and Friesen (1982) define entrepreneurial strategies as continuous and repeated efforts to establish competitive advantage through innovation. According to Drucker, entrepreneurial strategies are: 1. an attempt to become the unchallengeable leader of economic field. 2. Creative imitation. 3. Entrepreneurial judo 4. Serving a small market without provoking competition 5. Any change in product's economic characteristics (Drucker.2001). He believes that entrepreneurial strategies are an organization's attempts to acquire and maintain private value through opportunity exploitation ; he also classifies strategies which preserve entrepreneurial profit into two categories: a) preventive strategies including: controlling resources (long term contracts, complete acquisition of the limited resources etc...), legal barriers to imitation, scale, reputation, innovation b) secrecy: strategies precluding access and strategies which hinder understanding and learning.

In the literature of entrepreneurial strategies, preventive strategies are not fully examined; in this regard only Shane pointed out these strategies from an entrepreneurial perspective. The other researches which reviewed these strategies more practically are Sonfield et al. (1997) They develop a four cell matrix of entrepreneurial strategy focusing on two dimensions of innovation and risk. Since this research only examines variables of innovation and risk and also the actions that an organization undertakes in accordance with these variables, this matrix is not comprehensive enough.

On the other hand, from the beginning of the present century, strategic entrepreneurship discussions gave rise to several conceptual models. Strategic entrepreneurship models, among which are the Ireland, Hitt and Sirmon (2003) and Hitt et al. (2001) consider entrepreneurship strategies as a tool for following opportunity seeking behavior; however, there has been no independent and comprehensive study identifying entrepreneurial strategies. Foss and Lyngsie (2011) believe that strategic entrepreneurship is a combination of entrepreneurship and strategy. One of the most important theories concerning competitive advantage is resource-based theory. According to this theory, resources with the potential of becoming sustainable competitive advantage should be valuable, rare, inimitable, and irreplaceable (Barney, 1991). In fact, it could be said that, although sustainable competitive advantage may not be obtained just through assessment of opportunities and threats and guiding the business to an environment full of opportunities and few threats,

but creating sustainable competitive advantage also requires unique resources and capabilities in order to prepare the organization for the competition. As a means to detect these capabilities and resources, it seems that management should have a look inside of the organization to discover valuable, rare and costly to imitate resources and then use these resources by assembling them (Barney,1995).

On the other side, Peteraf (1993) defines some of the prerequisites and conditions of developing competitive advantage which include:

1. Developing superior or heterogeneous resources in order to create profit
2. Ex-ante limits to competition
3. Ex-post limits to competition
4. Imperfect mobility

Competitive advantage calls for preserving heterogeneity of conditions. If the heterogeneity were a short term phenomena, the profit would also be temporary. In fact, the number of firms holding the resources in hand and capable of increasing the amount of supply should be kept limited. The ex-post limits to competition for retaining heterogeneity are demonstrated in Peteraf's (1993) model. In the case of an increase in supply, a decrease in price will be experienced and profit would be lost. Accordingly, Alvarez (2001) assumes entrepreneurial cognition, opportunity recognition and strategic complementarities as ex-post limits. On the other hand, if the costs increase, this will cause the average cost curve to shift upward and consequently the profit will be lost. Therefore, the firm should earn profit in the absence of competitors, so that there will be no competition to gain that profit. If competition took place for adopting resources, this will continue until there will be no profit left (Peteraf, 1993).

As mentioned earlier, the definitions of entrepreneurial strategies are various and such strategies are very sparse. Entrepreneurial strategies are not distinguished from business strategies and no individual research conducted considering Schumpeter's (1934) definition. According to this definition, new combination of productive agents is the base of innovation. These new combinations of existing resources could result in the development of new products or services, new processes, new distribution channels, new ways of supplying raw material or creating a new firm. When economic agents combine resources in a new way and the price of these new resources is not predetermined, entrepreneurial rent is formed (Rumelt, 1987). Schumpeterian rent is created by innovators and the entrepreneur is expected to benefit from this rent. This process starts with the introduction of innovation and continues until successful launch of the product in the market. Meanwhile, competitors are attracted to the innovation and they begin to imitate but before this happens the entrepreneur gains profit (Collis, 1998, p44). The ultimate goal of the present study is to discover strategies preserving this kind of rent, although this rent will finally come to an end as a result of imitation, but entrepreneurs can decrease the slope of declining in Schumpeterian rent by implementing some entrepreneurial strategies.

Distinguishing and recognizing entrepreneurial strategies requires a new survey with regard to Schumpeter's definition and using the resource based theory as its framework. However there is little empirical research concerning the structure of strategic entrepreneurship and thus micro foundations of this subject matter requires more research (Rensburg, 2013). The present study helps clarifying the opportunity seeking behavior in the strategic entrepreneurship model of creating wealth through using entrepreneurial strategies as a tool. Resource based theory represents prerequisites of achieving competitive advantage, but which strategies should be used in order to meet each requirement, is not pointed out in this theory. Therefore, since one of the prerequisites of reaching competitive advantage is preserving ex-ante and the ex-post limitations to competition, entrepreneurs should design and execute strategies to meet these requirements. Satisfying these conditions and requirements keeps off competitors from offering the same product and prevents any increase of the resource cost, which in turn preserves profit. As a result, distinguishing entrepreneurial strategies from business strategies, based on Schumpeter's definition, and reviewing Peteraf's conditions of achieving sustainable competitive advantage and specifying entrepreneurial strategies are the two major purposes of this research; so the semi-structured interviews with the general question of "what strategies do you follow or will follow in order to preserve profit of innovation?" are performed and entrepreneurs in the food industry were interviewed in order to determine strategies preserving Schumpeterian rent. Analysis of these interviews resulted in discovering entrepreneurial strategies which will be discussed in detail in the following sections.

## **Methodology**

This research uses a descriptive survey method as its research design. Entrepreneurs from food industry in Iran participated in the research. Sampling started by targeting professionals and these professionals recruited others among their acquaintances and this process continued and formed our sample group. Thus data collected through interviewing subjects. Infact snowball sampling method being used; this method also called network sampling or chain referral. Data collection completed using semi structured interviews and the questions structured and edited through exploratory interview. The interviews conducted by two interviewers and simultaneously recorded and noted in script. Each interview lasted between 120 to 155 minutes.

Analysis of data obtained from semi structured interviews performed by open and axial and selective coding. In this study 15 entrepreneurs participated who are working in the food industry of Iran including bread, diary, beverage, distillates, and conserves producers, out of which 9 participants hold a B.A./B.S (60 %), 3 participants a M.A./M.S. (20 %), 2 participants a PhD (13 %) degree and only one participant(7%) was undereducated. Considering age, two participants were in the age group of 30-40, three participants in the age group of 40-50, five partici-

pants 50-60, and two of them were in their 60-70 years of age. One of the interviewees was female and the other fourteen were male.

Since many innovations exist in the food industry and on the basis of Schumpeter's definition they could be considered entrepreneurship, food industry is chosen for the purpose of this study. In other industries though to the limited quantity of the innovations and entrepreneurs, sampling and sample size would be a problem. Some of the organizations were newly established and launched their activity in the recent years. This means that only the entrepreneur himself could be the subject of this study. In some of the other organizations a number of senior managers who were aware of the strategies being used, were also interviewed. The young institution didn't keep good documentation of the strategies and in larger organizations the researchers couldn't access to the data related to the strategies.

Sampling and the interviews continued until the analysis and exploration reached some kind of theoretical saturation, in other word till:

1. It seems that no new data remained unexplored and the further interviews will not bring about any new data concerning our subject matter.
2. Each category achieved richness.
3. The relations between categories are established and confirmed (Stauss & Corbin, 2008).

In this study the theoretical saturation and the frequency of responds in fact started from the 12th interview but the process continued until the 15th interview to ensure the accuracy of the work. By reaching theoretical saturation and certainty of the results, the ground was prepared for the implementation and analysis of the data and therefore these data were analyzed through open and axial coding methods.

## **Results**

### *Creating continuous innovation*

Entrepreneurs always keep one step ahead of their rivals by creating continuous innovations and making changes in their existing products and services. In fact, the entrepreneur offers a new product just before competitors manage to imitate and in this way preserves its rent. Interviewee code one believes that it is possible to prevent imitation through innovation: "we concentrate on a single product then innovate and present the next product" interviewee code 13 states that: as an entrepreneurial firm we are looking for new products, we offer so many new products that competitors give up."

### *Pioneering strategy (being the first mover)*

Pioneering strategy is one of the most important strategies which entrepreneurs employ. Interviewee code 11 states that: "...forerunning is very important, for example when Mihan<sup>1</sup> introduced its new ice-cream named Magnum, nobody could keep up with its quality and became known by the customers. A great number of participants believed in this strategy and believed in its importance. According to participants' answers, this strategy could provide entrepreneurs with the fol-

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<sup>1</sup> The name of a dairy company

lowing resources: reputation, brand, customer loyalty, long lasting customer relationships, adopting distribution channels. This participant also continues: “we try to introduce our product quicker than our competitors with the help of a strong R&D department and more investment and this causes difficulties for the competitors; in this way our product will become well known. It is possible that we work on the same product at almost the same time, but if we launch the product before them, it causes them difficulty and weakens their brand.” In the interviews participants mentioned the pioneering or forerunning strategy and its effect on accessing low price resources: “early action makes us the sole buyer of resources where too many suppliers exist and all compete with each other, but if other buyers pop in the situation will change.”

#### *Economy of scale*

Implementation of this strategy decreases production costs and also the product price and consequently establishes financial barriers to imitation. One of the strategies mentioned by participants is the economy of scale which entails decreasing costs by increasing the scale of production. Some of the participants accept economy of scale as a strategy. Interviewee code 1 believes that mass production weakens the rivals as a result of market saturation “...working in mass scale allows us to cover the whole market and weaken our competitors”

#### *Secrecy and ambiguity strategy*

Most of the entrepreneurs pointed out this strategy: interviewee code 10 states that: “in food industry the trick is hidden in the formula, by coding we keep it secret, for example Carboxymethyl cellulose coded 100. We hide the real name of the material and constantly change the coding...” interviewee code 4 believes that information is important : “those who hold the information, should not think that these information are always worthy, cause the information is constantly changing and they don’t have access to all of it...” . Knowledge and information should be dispersed between different employees and no one should have access to all of the information. For example interviewee code 7 states: “we don’t teach our employees A to Z of the work”, “coding in flavoring substances and ameliorators is so important...” Participants believed that information should not be disclosed to anyone outside of the R&D team; rivals should not be aware of the products we are working on. Interviewee code one believes that there should be some degree of intimacy between team members and information disclosure should be deferred in the early stages “we are intimate with our team thus we can preserve secrecy for a few months and so keep the competitors out...”

#### *Control of resources*

In discussions concerning strategies which prevent imitation, the primary idea is to limit competitor’s access to key resources. These key resources may be the professional human resource holding part of an organization’s knowledge. Participants in the interview pointed out some of the methods for managing resources which motivating and sharing profit with key employees is one of them. In this re-

gard interviewee code 11 expresses: “Kalleh pays high prices for the milk produced in Nazarabad and purchases all of it and this act causes some difficulties for us...”

#### *Establishing reputation and brand*

Brand and reputation strategy is one of the most important strategies with the help of which the entrepreneur organization to some extent succeeds in preventing imitation. Interviewee code 2 stated: “Our brand is the main reason customers buy our product. Generally loyalty in food industry is quite low but in equal conditions the customer will choose the stronger brand” and continues: “reputation has a great psychological effect on customers, many people choose us because of our brand and so competitors cannot enter this market easily”, interviewee code 5 describes how do they establish reputation in their own firm: “...we boost our company’s reputation by enhancing quality, lowering prices, offering more services” interviewee code 8 also believes that customer relationships is important: “maintaining good relations with our customers, establishes a state of attraction and thus customers ask from retailers and wholesalers for our product ....”

#### *Compromise with competitors*

this strategy mentioned just by one of the interviewees: “we cooperate with our rivals. There is enough demand in Iran; each firm can operate in its area...”

#### *Selecting strategic location for the business*

An appropriate location that one of the participants pointed out in the interview can be a valuable resource, especially in dairy industry. He believed that proximity to raw material can decrease logistics cost dramatically and makes the firm over its competitors. Interviewee code 2 believes that being close to the raw material is a competitive advantage: “The plantation is near to raw material and this is a competitive advantage over our rivals because they cannot obtain a permission to work in that area. In fact a suitable place is one of our valuable resources and is not easily imitable...”

#### *Legal barriers*

Two of the participants in this research (interviewees code 1 and 8) mentioned regulatory barriers. Although regulatory barriers are taken seriously in foreign countries, they do not have the same effect inside of Iran. Interviewee code 1 believes that there is no regulatory barrier to restrict imitation and thus copying is widespread. This can hinder creativity and firms are not willing to innovate under such conditions. Interviewee code 8 refers to limited legal protection: “here there is no intellectual property right but we can register the formula, shape, logo, and brand...” and this suggests that regulatory barriers exists in Iran although they are not so effective.

#### *Franchise development*

Interviewees code 3 and 8 referred to franchising as a preventive strategy against imitation: “by franchising we control distribution but unfortunately franchises are not so stable”. Franchising establishes the brand and covers a specific



geographical area which results in market governance and somehow prevents and interferes with imitation.

#### *Sharing profit with resource owners*

Entrepreneurs use this strategy in order to prevent any increase in resource prices. Although some of the participants in the research mentioned partnership as an effective strategy but others believed that although this strategy can be effective but it would not reveal acceptable results in Iran and also would cause dissension and impose more expenses on the firm; thus this strategy should be implemented attentively. Some of the participants mentioned that sharing profit with the key employees and the professionals prevents their leave so that there will be no need to attract employees with the same skills which entails substantial cost.

Supplier diversification and provoking competition between them was one of the strategies mention in the interviews as a means of reducing prices. Interviewee code 12 stated: “in order to reduce cost we should use various suppliers and in this way provoke competition among them, and then we can buy what we need in a lower price and decrease risk”.

#### *Vertical integration*

Some of the participants especially those involved in the dairy industry believed that developing an agro-industry can be helpful and thus considered this strategy as a means for minimizing risk which could in turn control resource prices and prevent unexpected rise of cost. Interviewee code 2 stated: ... as a producer of animal food, we service factory farms, provide veterinary and food and thus control resource cost”.

## **Conclusions**

Analysis of the interviews revealed 13 strategies used by entrepreneurs in preserving Schumpeterian rent and preventing imitation and copying. In this research strategies of sharing profit with resource owners, compromise with competitors, supplier diversification, selecting strategic location, and vertical integration are mentioned for the first time as the entrepreneurial strategies preserving Schumpeterian rent. Moreover, radical and incremental innovations are discussed as two distinct strategies. The other identified strategies are in accordance with the Shane’s (Shane, 2003: chapter 9) theories however the strategy of controlling tangible resources and working in economic scale were criticized by some of the entrepreneurs. Not all of the above strategies are of equal importance. Considering verbal statements, the participants’ emphasis was on continual innovation and being the first mover and only a few of the participants mentioned strategies such as selecting a strategic location and developing franchise but the most emphasized strategy was incremental and radical (being the first mover) innovation strategy. Previous studies show that survival and growth of the firms working on innovating and improving products are far more than others (Littunen, 2000; Zahra & Bogner, 2000). As discussed earlier there are two kinds of innovations which firms could involve in: disruptive and incremental (Christensen, 1997). Disruptive innovations make

revolutionary changes in the market whereas incremental innovations result in gradual changes (Tushman&OReilly, 1996). Continual innovation is one of the most important strategies which should be devised by an entrepreneurial organization. With the first introduction of creative product to the market, many entrepreneurs will attempt to imitate and the purpose of these entrepreneurs that we call them Austrian entrepreneurs is to take the imitable part of the rent from the primary entrepreneur. Darroch, Miles and Paul (2005) consider two components for the Schumpeterian rent: the Ricardian rent which is inimitable and the Austrian Rent that will be seized by Austrian entrepreneurs as the innovation introduced to the market. Another strategy is to constantly lead other firms and this is only possible through continual innovation and making small changes in the product. By this strategy, the entrepreneur would protect the entrepreneurial rent of the product from diminishing and in this way the competitors' attempts to creative imitation and destroying rent will be prevented. According to the entrepreneurs participated in this research, incremental innovation will make innovation intensity of the product look more than what it is and also will discourage the competitors. Furthermore the entrepreneurs believe that through incremental innovation they can add some amount of attractiveness and charm to the product and hinder customer's switch to the product of the competitors and make it look old fashioned. This is how they always look new and encourage their customers to test the new product and stop them from looking for other products of the competitors.

Product variety which is the result of incremental innovation strengthens entrepreneurs' brand and besides changes customers' mindset about other firms – customers will accept them as follower firms- and thus reputation of these firms will be put at risk. According to interviewees, any change in the product even product packaging or its weight could get the better of the rivals. Generally participants in the research believe that small innovations and little changes are very important in the food industry and the organization should be looking for series of innovation. On the other hand, through pioneering strategy, entrepreneurs could set the product standards and so as the time passes the product will be established with the same standards in the market. By being innovative the entrepreneurs intended continuous innovations or making changes on the other firms' products and this means that under such conditions, the original product does not belong to the entrepreneur; but by the pioneering strategy and being the first mover they mean radical innovation and the purpose is to be the first one who introduces the product to the market. In addition implementation of pioneering strategy could in the absence of competitors provide the entrepreneurs with low-cost resources and this will satisfy Petrarf's ex-ante limitation requirement of the competition. Pioneering strategy allows entrepreneurs to get access to tangible and some intangible resources because the competition in the absence of competitors is in its minimum level and the resources have the lowest price. However as there is no competitor involved and they are not aware of the details of innovation, the entrepreneur could control some of the resources including human resource more easily. A firm could be a leader

only if it sets the product standards for the first time and determines the product price; therefore it would take complete control of the product and the competitors are obliged to produce according to the price and standards of the leading firm. However this process is practically time taking tough it can prevent hasty loss of entrepreneurial rent. Being the first mover might be thwarted by the creative imitation strategy on the competitors' side which means they can make slight changes on the product with little cost. In other words the product should be introduced to the market only when all the deficiencies are eliminated and every functional aspects of the product anticipated. It should also be offered in conditions where the chance of making small innovation and creative imitation strategy by the competitors is in its minimum level. Briefly speaking, the pioneering strategy and being the first mover is one of the important strategies both in the terms of preventing imitation and exploiting resources with the lowest cost. However implementation of such a strategy entails some prerequisites and also requires implementation of other strategies which is not easily possible yet could generate fruitful results for the organization.

Working in economic scale is considered a strong deterrent against imitation. Low production cost and product price resulted from mass production, leaves no more rent for the Austrian entrepreneurs and thus no incentive to imitate but for the first movers still there is some rent left. Working in economic scale could restrict entrepreneurs' agility and consequently opportunity recognition can be impeded in the future. In fact the entrepreneur organization should exploit entrepreneurial rent of the previous innovation and at the same time should anticipate incremental or radical innovations, though organization growth and large investment on the previous innovation would hold back the entrepreneur from recognizing new opportunities and from an agile switch to new products. Mass scale production is some kind of price reduction strategy which is in accordance with the definition of entrepreneurial strategy (Shane, 2003: chap. 9) but organization growth and too much dependence on existing innovation(s) and mass production could hinder creation of new innovation(s); indeed the entrepreneur would not be able to follow a new idea quickly and any delay will lead to loss of opportunities. Transforming a mass production line to a new one could be tough. In this case the entrepreneur has to look for outsourcing and compromise strategies in order to follow new innovations. However working in economic scale endangers organization and flexible structure of the organization. Mass scale production could also prevent product diversification and custom production although volume purchase of the materials in order to implement this strategy could reduce costs; that's because suppliers provide entrepreneurs with low cost resources. Overall this strategy is a strong deterrent against imitation but the success and effectiveness of it and also problems caused by it needs more research.

Secrecy and ambiguity strategy is in fact a necessity and by implementing this strategy the entrepreneur slows down loss of the Austrian rent. It is through causal ambiguity that entrepreneurs reach competitive advantage in Ricardian re-

sources and this ambiguity is the nature of some resources. The food production companies studied in this research follow this strategy by keeping formulas secret, coding, and also avoiding job rotation. If resource owners find out about the value of the product, it is possible that they increase the price of their resources and add to the costs of production. In this regard participants in the research believed that the entrepreneur should implement secrecy strategy against resource owners otherwise they would try to somehow share the benefit with the entrepreneur. However the resource prices will finally increase as a result of suppliers awareness or competitors attempt to purchase from resource owners but the entrepreneur should try to keep the information secret as long as possible in order to preserve entrepreneurial rent. According to the interviewees this strategy can be implemented through: 1. friendly relationships with the employees 2. secrecy in formulas or material combinations through: a) complicating formulas and ingredient structure b) coding flavors, aromas, ameliorative etc.

The entrepreneurs should not allow the key resources to be lost easily and this finding is in contrast with the research literature which suggests long term contracts, purchase of scarce raw material, and choosing critical location to control resources. Some of the participants do not trust tangible resource control strategy as an entrepreneurial strategy but considered intangible resource control an entrepreneurial strategy. Regarding intangible resources, some of the entrepreneurs believed that entrepreneurs should attract resources in order to obstruct competitors' access to those resources and consequently resource owners will prefer to cooperate with the leading entrepreneur. Therefore there was no agreement on tangible and intangible resource control, however in the case of strategies preventing imitation, the majority agreed on impeding competitors' access to the key resources which could include professional human resource that possess part of the organization's knowledge. Generally, motivating key employees and sharing profit with them are among the methods for controlling this kind of resources. Human resource management and reward system and also promotions have an important role in retaining employees and preventing resource mobility.

Branding (reputation) is one of the most important strategies in preventing imitation. Customers prefer products and services of a firm with a better brand and therefore the entrepreneurial rent will remain nearly untouched even if competitors succeed in imitating the leading entrepreneur's product. If customers trust in the quality or other aspects of the first product, entrepreneurial rent will be preserved. In the case of an imitation, the entrepreneurial rent of the leading company is not expected to decrease in a linear manner. In fact brand will cause some amount of cohesion and the rent will decrease in a non-linear manner and in a low slope (if supply is doubled as a result of competitors' presence, the rent will be decreased by half)

Franchising is another preventive strategy which establishes the brand and improves geographical coverage and consequently will result in market governance. According to the entrepreneurs participated in this research, franchising pre-

serves profit in two ways: first by improving geographical coverage of the product which in turn establishes the brand and in this way taste of the leading company's product will be the standard taste for that product therefore the imitating firm will be considered the follower; this means switching to the copied product is not probable. Second, franchise agencies reduce costs and the product will be offered to the customers in a lower price and therefore the imitating company will encounter problem of dealing with lower price of the original company (they had to keep up with the standards of the leading company and in addition reduce the price to the price of the leading company but this is not an easy job specially concerning mass production and extensive geographical coverage of the leading company.)

Business location might be prevention against imitation and also as a strategy for preserving the rent. Selecting an appropriate location for the business is mentioned by one of the participants as a preventive strategy. The advantage of this strategy is revealed only when the business permissions are limited due to legal regulations. A firm could achieve competitive advantage through strategic location where other competitors are not allowed to that area because of the legal restriction.

Nevertheless legal barriers considered an important prevention against imitation in many places around the world, and Shane (2003, chap9) also pointed out this strategy as being entrepreneurial. Legal barriers in some places are weak and could not act as a strong preventative tool, yet in the country investigated in this study, it is possible to register logo and brand. This study is conducted in the food industry of Iran and as there is no legal barrier and copyright in this country and most of other countries, participants highlighted these barriers, and this is the reason why other strategies like secrecy and ambiguity is more exploited. According to what participants stated, lack of legal support has a negative effect on the entrepreneurial businesses in Iran and this is because the lack of legal support impedes creativity and innovation. In this condition it is expected that Austrian rent which is the imitable part of the entrepreneurial rent to diminish and be lost as a result of imitation. Therefore innovative firms do not have enough time to create Ricardian resources and most of their rent will be lost.

Compromising with the competitors is a strategy mentioned by one of the participants, yet how much it can produce competitive advantage, is a matter of doubt and the effects of this strategy need to be studied. Considering the special condition of Iran, this strategy can be fruitful in the short term but in general we could not expect other firms to keep out and do not copy and imitate. that is because there is an extensive market and the emergence of new entrants with the purpose of exploiting leading entrepreneur's rent is a great possibility.

Vertical integration can be considered as a solution only if we are not dealing with complicated conditions and structures. This strategy is well received especially in dairy industry; however it can hinder creativity by complicating, the style of entrepreneurial organization and making it more bureaucratic and this is the reason why it is not suggested for the firms involved in the food industry; even if the

firm decides to integrate vertically it should avoid excessive company growth. However this strategy only favored in the dairy industry, yet some of the companies in the beverage industry tend to produce the bottles in their own facilities because of the high price and low profit of the bottles. Sharing profit with the resource owners can also be helpful in controlling resource cost. Supplier diversification strategy can minimize resource cost and prevent supplier monopoly through provoking competition between suppliers but some of the participants believed that it can discourage suppliers and might have a negative effect in long run.

Strategies like vertical integration, sharing profit with resource owners, supplier diversification, resource control, pioneering, secrecy and ambiguity, economy of scale satisfy the ex-ante limitation to competition by decreasing resource cost. Strategies of sharing profit with resource owners, resource control, secrecy and ambiguity, and economy of scale can satisfy both ex-ante and ex-post limits to competition. Other strategies only meet ex-post limits. Vertical integration, sharing profit with resource owners, resource control, and economy of scale removes entrepreneurs' worries about any substantial increase in resource cost even after the emergence of many competitors. It seems that after meeting perfect competition requirements and loss of Schumpeterian rent the effect of some of these strategies diminishes.

Generally speaking it could be summed up that the difference between entrepreneurial and non-entrepreneurial strategies is the existence or the lack of Schumpeterian rent. When no Schumpeterian rent remained as a result of Austrian entrepreneurs' imitation, the strategy will be propelled toward non-entrepreneurial strategies. Innovation or the Schumpeterian rent is the dividing line of entrepreneurial strategies. Some of the strategies belong to the entrepreneurs which include: being the first mover, continual and incremental innovation, ambiguity and secrecy in order to maintain innovation and legal barriers for preventing unauthorized use of innovation; these strategies are different from business strategies

Some other strategies, although are not pure entrepreneurial, but as long as the organization uses them to keep entrepreneurial rent considered entrepreneurial; for example franchising, working in economic scale, vertical integration, resource control, sharing profit with resource owners, supplier diversification are among these strategies.

According to this research, it is possible to classify the strategies into two distinct groups: first strategies which are used by the entrepreneurs and that is because these strategies help maintaining entrepreneurial rent and the innovation factor is the distinct characteristic of them. The second group is recognized as being entrepreneurial as long as an innovation exists but the problem is we could not precisely distinguish them from business strategies. However what separates entrepreneurial strategies from business strategies is the rent resulted from innovation and as this rent decreases, they are drawn toward non-entrepreneurial strategies. Some of the food products are being used for a very long time. Butter for example is a product which the companies by exploiting strategies such as lowering costs and

product price, advertisement, vertical integration and some other strategies are trying to increase its sale. As long as the intended strategy lacks innovation -for example there is no new butter remained- it is non-entrepreneurial. Other strategies such as decreasing package size and stabilized prices in the case of potato chips for example, lowering product quality and keeping the same prices (in the case of fruit juices increasing the amount of sugar) and many other strategies which are not related to creating and maintaining the profit resulted from creative destruction and innovation including horizontal integration of two organization lacking innovation, forward Integration, and backward integration which do not have any impact on entrepreneurial rent also considered non-entrepreneurial.

Identified entrepreneurial strategies are the desired tool for the opportunity seeking behavior of strategic entrepreneurship. Strategic entrepreneurship doesn't survey the necessary tools for the opportunity seeking behavior and the complete creation of Schumpeterian rent of that opportunity although Hit et al. (2001) emphasized the pursuing this behavior.

The lack of a proper and operational definition for the entrepreneurial strategies and also the problem of distinguishing entrepreneurial and non entrepreneurial strategies are among the limitations and problems that researchers encountered in this study. The findings of this research can help enriching the entrepreneurial strategies literature. Exploiting the identified strategies can be effective in preserving the rent and as the entrepreneurial strategies are considered as tools in achieving competitive advantage, the findings can be helpful in the strategic entrepreneurship discussions. The research findings distinguish between entrepreneurial and non entrepreneurial strategies and also these findings can be more relevant to be used as a foundation for a proper definition of the entrepreneurial strategies.

### **Suggestions for further research**

The present research is conducted in the food industry; we suggest conducting a similar research in other industries in order to identify additional entrepreneurial strategies which might be specific to those industries. Subjects matters like identifying methods of implementing secrecy and ambiguity strategy, resource control techniques, controlling or not controlling tangible resources which the entrepreneurs were skeptical about, organizational prerequisites of pioneering strategy, compatibility of economy of scale with opportunity seeking behavior and organization's agility decrease after conducting this strategy, inspecting problems and defects in executing vertical integration strategy and also reviewing strategy of compromise with competitors and its success or compatibility with the entrepreneurial behavior and positive or negative effects on the organization's opportunity seeking behavior can inspire researchers for further studies.

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**Table 1.** Creating continuous and incremental innovation

| Verbal statements  | Code  | f  | Open Coding       | Axial Coding  |
|--|---|----|-------------------|---|
| “ we concentrate on a single product then with little innovations work on the other product”, “ we make some changes on the product, remove the defects , and with the help of R&D explore and invent”, “offering high quality innovation prevents creative imitation of competitors” , “ We offer a better product to attract customers and do this by minor changes”, “ product diversification is what we are looking for”, “our purpose is to change the product and shift to a new high level innovation ” , “ offering a series of innovations help the firm to be always one step ahead of competitors” | I1, I2, I3 ,I4, I5, I6, I7, I8, I9, I10, I13, I14 | 12 | Minor innovations | Creating incremental innovations in a continuous manner |

**Legend:** f= Frequency of Verbal Statements, Code= Interviewee Code

**Table2.** Pioneering strategy

| Verbal Statements   | Code                                     | f  | Open Coding  | Axial Coding                              |
|---|--|----|--|---|
| “As there is no respect for copyrights, they can easily imitate us. Just we should hope to be the first to introduce the product to the market”, “ we try to introduce our product quicker than our competitors with the help of a strong R&D department and more investment”, “invention and creativity makes us leaders and in this way we can set the price and product qualifications”, “ we are suggesting that the previous product is expired and always want to offer a new product”, “to be the first on a paper and only get a license is not enough, what we want is to introduce the innovation to the market before the others. It is important to literally be a leader not to be a leading but unsuccessful firm.”, “we are the first to innovate and thus we establish the product qualifications | I1, I2, I3, I4, I5, I6, I7, I9, I11, I13 | 10 | Introducing the innovation before the other companies<br>Pioneering and setting product property | Pioneering (the first ) product offerings |

**Table 3.** Economy of scale

| Verbal Statements  | Code            | f | Open Coding  | Axial Coding       |
|--|-----------------|---|--|--------------------|
| “Saturating market to the point that no more demand is generated and then satisfying the entire amount of demand keeps off new entrants. This means we work in mass scale”. “Working in mass scale allows us to cover the whole market and weaken our competitors”. “by whole sale and mass production we succeeded in decreasing costs”, “our firm offers innovation in low price and so that there is no economy in imitating” | I1, I2, I3, I11 | 4 | Working in a scale with minimum costs.<br>Mass production. | Economies of scale |

**Legend:** f= Frequency of Verbal Statements, Code= Interviewee Code

**Table 4.** Secrecy and ambiguity strategy

| Verbal Statements  | Code   | f  | Open Coding   | Axial Coding                       |
|--|--|----|---|------------------------------------|
| <p>“Developing friendly relationships with team members allows us to retain secrecy and ambiguity of our work and hinder competitors’ awareness of that”. “secrecy in formulation is important”, “we use quasi complexity in organizing, formulation, and structure”, “those who hold the information, should not think that these information are always worthy cause information is constantly changing and they don’t have access to all of it.”, “we don’t teach our employees a-z of the work”, coding in flavoring substances and ameliorators is so important”, “in food industry the trick is hidden in the formula, by coding we keep it secret, for example Carboxymethyl cellulose coded 100. We hide the real name of the material and constantly change the coding”</p> | I1, I2, I3, I4, I5, I6, I7, I8, I9, I10, I13, I14, | 12 | <p>Preventing product information diffusion<br/>                     Dispersing information between employees<br/>                     Preventing information and knowledge exclusivity</p> | Establishing secrecy and ambiguity |

**Legend:** f= Frequency of Verbal Statements, Code= Interviewee Code

**Table 5.** Strategy of resource control

| Verbal Statements   | Code                            | f | Open Coding   | Axial Coding     |
|---|---------------------------------|---|---|------------------|
| <p>“ Kalleh<sup>2</sup> pays high prices for the milk produced in Nazarabad<sup>3</sup> and purchases all of it and this act causes some difficulties for us”, “there are 3 classes of employees in food industry... we don’t want to lose executive employees”, “sharing profit with the key employees who have an important role in creating innovation and have a great deal of information is another way of preventing employee leave”, “by attracting resources , our rivals will encounter problem in gaining their needed resources”, “we employ potentially talented people and then train them”</p> | I1, I2, I3, I4, I5, I6, I8, I11 | 8 | <p>Key employee retention<br/>                     Restricting competitors access to tangible resources</p> | Resource control |

**Legend:** f= Frequency of Verbal Statements, Code= Interviewee Code

<sup>2</sup> A dairy company

<sup>3</sup> A city located in Alborz province, Iran

**Table 6.**strategy of establishing reputation and brand

| Verbal Statements  | Code                                  | f        | Open Coding       | Axial Codig                              |
|--|---------------------------------------|----------|-------------------|--|
| <p>“Our brand is the main reason customers buy our product. Generally, loyalty in food industry is quite low but in equal conditions the customer will choose the stronger brand”, “reputation has a great psychological effect on customers. many people choose us because of our brand and so competitors cannot enter this market easily”, “we boost our company’s reputation by enhancing quality, lowering prices, offering more services”, “maintaining good relations with our customers, establishes a state of attraction and thus customers ask from retailers and wholesalers for our product”,</p> | <p>I2, I4, I5, I8, I10, I13, I15,</p> | <p>7</p> | <p>Reputation</p> | <p>Establishing reputation and brand</p> |

**Legend:** f= Frequency of Verbal Statements, Code= Interviewee Code

**Table 7.** Strategy of sharing profit with resource owners

| Verbal Statements   | Code                             | f | Open Coding   | Axial Coding                        |
|---|----------------------------------|---|---|-------------------------------------|
| “in the existing conditions we have to cooperate with farms”, “partnership with suppliers or even distributors causes a decrease in resource prices”, “employees are one of our resources and we share the profit with them”, “we share our profit and loss with those who hold the resources, in this way we always have their support”, “sharing profit with professional human resource prevents employee leave” | I1, I2, I4, I5, I8, I9, I10, I11 | 8 | Offering shares to employees<br>Cooperation with farmers and suppliers<br>Sharing profit with employees | Sharing profit with resource owners |

**Table 8.** Strategy of supplier diversification

| Verbal Statements   | Code            | f | Open Coding  | Axial Coding             |
|---|-----------------|---|--|--------------------------|
| “working with multiple suppliers minimizes competition risk”, “we buy from different suppliers and this fosters competition between them”, “suppliers are the Achilles heel in this industry and so we work with different suppliers”, “we believe that in order to reduce cost we should use various suppliers and in this way provoke the competition among them, then we can buy what we need in a lower price and decrease risk”. | I3, I4, I6, I12 | 4 | Buying from different suppliers<br>Fostering competition between suppliers | Supplier diversification |

**Legend:** f= Frequency of Verbal Statements, Code= Interviewee Code

**Table 9.** Vertical integration

| Verbal Statements   | Code        | f | Open Coding                | Axial Coding         |
|---|-------------|---|----------------------------|----------------------|
| “in this industry, the best thing to do is to have a factory farm which is what we did”, “as a producer of animal food, we service factory farms, provide veterinary and food and thus control resource cost”, “suppliers are somehow a part of the firm and are beneficiary” | I1, I2, I11 | 3 | Integration with suppliers | Vertical integration |

**Legend:** f= Frequency of Verbal Statements, Code= Interviewee Code

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