

# **Strategic Management**

Concepts  
only

**Competitiveness and Globalization**

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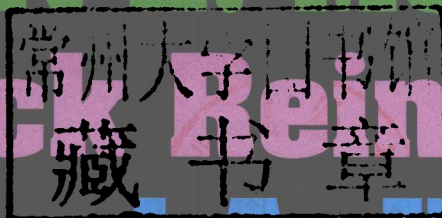
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**Strategic Management: Competitiveness  
and Globalization (Concepts only)**

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*To our wives and children:*

*Anna, Lisa, Celine & Marrit (Henk W. Volberda)*

*Tracey, Cian & Ffin (Robert E. Morgan)*

*Kumiyo & Karna (Patrick Reinmoeller)*

*Frankie, Shawn & Angie (Michael A. Hitt)*

*Mary Ann, Rebecca & Scott (R. Duane Ireland)*

*Kathy, Robyn, Dale, Becky, Angela, Joseph & Matthew (Robert E. Hoskisson)*



# PREFACE

Our goal in writing this book is to present a new, up-to-date standard for explaining the strategic management process in a way that meets what the international student of strategy needs. In adapting the original North-American text to be truly international, we present you with an intellectually rich yet thoroughly practical analysis of strategic management, specifically tailored to the European, Middle-Eastern and African (EMEA) market.

In writing this book, we were challenged and invigorated by the goal of establishing a new standard for presenting strategic management knowledge in a readable style. To prepare for this EMEA edition, we carefully studied the most recent academic research to ensure that the strategic management content we present to you is highly current and relevant for organizations. Highly relevant case studies, most of which we have researched for this volume, illustrate how strategy works. In addition, we continuously read articles appearing in many different business publications (e.g., *Business Week*, *The Economist*, *Financial Times*, *Forbes*, *Fortune*, *Wall Street Journal*, to name just a few); scan leading business blogs; scour current and emerging ideas from business applications and management consulting websites; listen to podcasts of critical strategy influences and thought leaders; and, work with companies directly in the executive education classroom and on consulting assignments. We do this to identify valuable examples of how companies use the strategic management process.

Though many of the hundreds of companies we discuss in the book will be quite familiar to you, some companies will likely be new to you as well. One reason for this is that we use the “best practices” of companies from around the world to demonstrate how globalized business has become. Another reason is that we want to unleash the “next practices” of strategic management by selecting those companies that clearly use the strategic management process to achieve superior performance. To maximize your opportunities to learn as you read and think about how actual companies use strategic management tools, techniques and concepts (based on the most current research), we write in a lively and user-friendly style.

## Key Characteristics

Several characteristics of this book will enhance your learning opportunities:

- This book presents you with the most comprehensive and thorough coverage of strategic management that is available in the market. Various aspects of Strategy Analysis, Strategy Formulation and Strategy Implementation are discussed in this book. In particular, this EMEA version provides full coverage of implementation issues, such as leadership, structures and controls, corporate governance, strategic entrepreneurship and strategic renewal. Moreover, this EMEA edition contains several new themes in new and adapted chapters. For example, Chapter 4 addresses the important opportunity to tap and integrate external with internal resources and introduces new concepts such as open innovation. Chapter 12, which is

devoted to Corporate Governance, shows how firms' ability to simultaneously satisfy their stakeholders' different interests is critical to firms' success and has become an essential part of the strategic management process. Chapter 15 discusses how implementation of strategic actions may help the firm to realize strategic renewal by revitalizing and transforming their core businesses, and seeking new avenues for growth. Other revised chapters show various other topics of the strategic management process examined in this book.

- The research that underpins this book is drawn from the “classics” as well as the most recent contributions to the strategic management literature, knowledge and practice. The historically significant “classic” research provides the foundation for much of what is known about strategic management; the most recent contributions reveal insights about how to effectively use strategic management in the complex, global business environment in which most firms operate while trying to outperform their competitors. Our book also presents you with many examples of how firms use the strategic management tools, techniques and concepts developed by leading researchers. Indeed this book is strongly application oriented and presents you, our readers, with a vast number of examples and applications of strategic management concept, techniques, and tools. Collectively, no other strategic management book offers the *combination* of useful and insightful *research* and *applications* in a wide variety of organizations as does this text. Company examples cover a wide international range of large firms including firms such as Apple, BMW, Google, Henkel, ING, IKEA, Muji, Nestlé, Nokia, Philips, Shell, Siemens and Tata. We also include examples of successful younger and newer firms such as Armani, Alessi, BehavioSec, Diesel, East-West Seed, Mamas & Papas, Ryanair, Suntech, and Virgin.
- By providing *cases* and *insights* that emerge from research in EMEA, we present the “global” standard and at the same time show how it is applied in “local” markets. We use the ideas of leading scholars from around the world to shape the discussion of *what* strategic management is (strategy content). We describe the practices of prominent executives and practitioners to help us describe *how* strategic management is used in many types of organizations (strategy process). On the basis of the numerous cases of various firms operating in diverse industries, we also demonstrate how *differences* in firms, industries and geographical locations affect the strategic management process (strategy context). Our cases challenge students to critically take into account the content, process and context dimensions of strategy.
- We carefully *integrate* two of the most popular and well-known theoretical concepts in the strategic management field: industrial-organization economics and the resource-based view of the firm. Other texts usually emphasize one of these two theories (at the cost of explaining the other one to describe strategic management). However, such an approach is incomplete. We argue that research and practical experience indicate that both theories play a major role in understanding the linkage between strategic management and organizational success. No other book integrates these two theoretical perspectives effectively to explain the strategic management process and its application across organization types.
- Focusing only on formulations of strategy is misguided. Strategy formulation is important yet nothing without strategy implementation. This is especially important in the current global economic climate and, with the dramatic changes that are unfolding, careful attention to feedback loops that enable



companies to better adjust to the shifting context make the implementation and renewal of strategy paramount for long term success. Unlike many other textbooks, we devote five chapters to the implementation of strategy. No other book offers the formulation-development link and the renewal loop in such clarity as presented here.

- We, the authors of this book, are also active scholars. We conduct research on a range of contemporary and challenging strategic management topics. Our passion for doing so is to contribute to the strategic management literature and to better understand how to effectively apply strategic management tools, techniques and concepts to create pay-offs in organizational performance. Thus, our own US- and European-based research is integrated in the appropriate chapters along with the research of numerous other scholars and thought leaders.

## Key Features

In addition to our book's characteristics, there are some specific features that we want to highlight for you. Understanding that a great textbook is not just text, we have composed more than that. Our composition allows you to experience the strategic management process through the key features listed below. Each feature enhances the learning experience and provides a rounded solution to your education in strategic management.

- **Integrative Process Approach** In this EMEA version, the whole strategic management process is covered starting from strategy analysis, strategy formulation, strategy implementation and renewal – we see this process as iterative and dynamic not sequential, linear and static as many other textbooks do. This approach provides the pathway through which firms are able to achieve strategic competitiveness and earn above-average returns. Mastering this strategic management process will effectively serve you, our readers, and the organizations for which you will choose to work.
- **An Exceptional Balance** We strike a fine balance between both current research and the state-of-the-art knowledge, and its application in contemporary organizations. The content has not only the best research documentation, but also the largest amount of effective real-world examples to help readers understand the different types of strategies that organizations use to achieve their vision and mission. We believe current research is a vital input to your knowledge while the applications serve as the platform for comprehending these sometimes challenging ideas.
- **Lively, Concise Writing Style** All chapters are written in a style designed to hold readers' interest and attention in strategic management while also demonstrating the relevance of this subject to day-to-day company news and current business affairs.
- **Opening Cases and Closing Cases** We provide a wealth of examples detailing how actual organizations use the strategic management process to outperform rivals and increase their performance. These Opening and Closing Cases of each chapter cover a wide range of industries in many different countries to help you get a better understanding of how strategy matters in a global marketplace. These relatively short case vignettes provide excellent support for individual reflection and class discussions.

- **Strategic Focus Boxes** Each chapter provides three in-depth contemporary examples that further support and broaden the strategic issues covered in the chapter. They provide short case descriptions, from mainly European companies, to illustrate the added value of the strategy concepts and tools discussed in the text.
- **Key Debate features** In addition to boosting the critical coverage throughout the main text, a new boxed feature highlighting a crucial debate in the literature is introduced. Each chapter contains a discussion of a thought-provoking and controversial topic to encourage students to think critically and analyze what they have read. Questions following each Debate allow students to monitor and test their understanding.
- **Summary and Margin Notes** Chapter summaries help you to recap and review the main points of the chapter. In the Margin Notes of each chapter you will find clear definitions of the strategy concepts used in the text.
- **Review and Discussion Questions** The review questions stimulate students to absorb the theory, reflect on the concepts and make new connections. The Discussion questions involve a mixture of active discussion, library assignments and web projects.
- **Experiential Exercises** These exercises place the reader in a variety of situations requiring application of some part of the strategic management process. Inviting you to engage with real businesses these exercises allow learners to lead their own progress and to enjoy discovery of new insights.
- **Video Cases** Following each chapter we seek to stimulate critical thinking and curiosity of the reader by introducing different perspectives through a link to an online video stream. These videos often introduce cases or issues that encourage creative and critical reflection.
- **Further Reading** Recommendations of relevant books and crucial articles are meant to broaden your horizon. On purpose we have selected books and articles to help you explore other voices often beyond management. We hope you enjoy these, as we think, productive *divertissements* or *divertimenti* create different and delightful tunes.
- **Full Four-color Format** This format and the visuals used enhance readability by attracting and maintaining readers' interest.

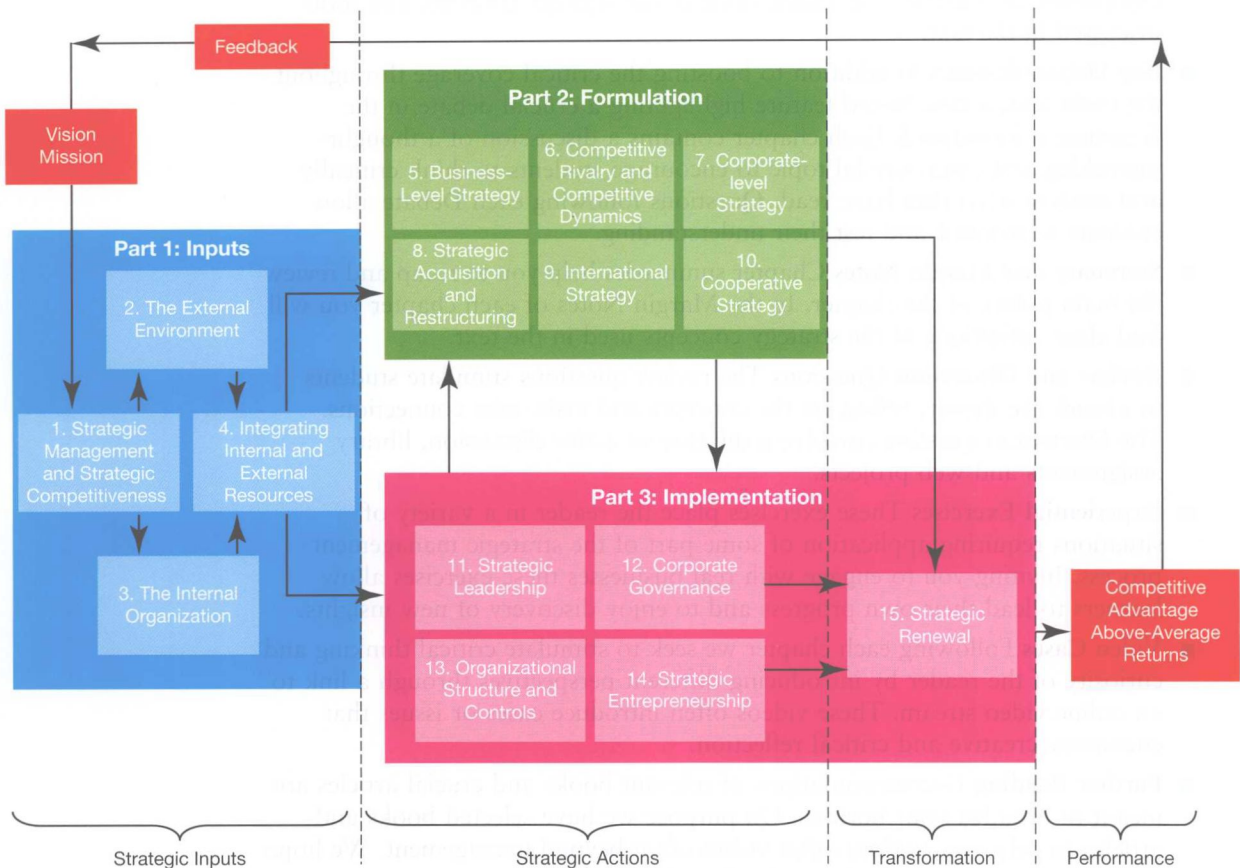
## STRUCTURE OF THE BOOK

This book covers the full spectrum of strategic management. We illustrate this with a simple framework (Figure 1) that provides a solid foundation to those students embarking upon strategic management education who seek to learn about how companies are led to success, as well as to more advanced students and practitioners wishing to understand holistically the integrative nature of this discipline. In line with our definition of strategic management, we seek to help explain and achieve above average returns (performance) by transforming the company through strategic actions for which the availability and awareness about strategic inputs are essential. In our book, we provide a logical step-by-step progression towards above average performance and feedback loops to further improve strategic fit in the long run.

The book has three parts that address the three key questions: 1. What do I need to achieve strategic competitiveness? 2. How do I articulate strategy? 3. How do I



implement strategy? Each of the three respective parts – Inputs, Formulation, Implementation – helps the strategic leader to create, to strengthen and to renew competitive advantage.



Part 1 – Inputs – consists of four chapters. Chapter 1 delivers what is needed to initiate strategic management and provides an overview, fundamental concepts and a holistic view of how core concepts relate to each other and to strategic competitiveness. Of special importance here is the dynamic nature of strategic competitiveness which is the outcome of a feedback process that provides the foundation to building effective strategic management. We then develop the mainstream approaches in strategy, focusing first on understanding the inputs related to the external environment and then the internal environment where we explain the outside-in and inside-out dichotomy in Chapter 2 and Chapter 3. Going beyond conventional textbook writing, we offer a new view on how to integrate internal and external inputs in Chapter 4.

With the strategic inputs necessary for Part 2 – Formulation – we present in six chapters how strategic leaders articulate new strategies in ways that are more competitive (Chapter 5–9) and more cooperative (Chapter 10). Carefully developing strategies requires heightened attention to the context of the new strategy. We focus on three main themes – business-level, corporate-level and international strategy. First, we address competition in product-market encounters at the business-unit level (Chapter 5) to understand how to develop business-level strategies. Competition is not limited to one competitive bout, which is why we devote Chapter 6 to competitive rivalry and competitive dynamics and the means that companies have

to formulate strategies to win under the most challenging circumstances. Following this, we present chapters that explain how to develop corporate-level strategy (Chapter 7) and how to formulate strategies to develop corporations through strategic acquisition and restructuring (Chapter 8). Both business-level strategy and corporate-level strategy needs to be attenuated when the development of companies is pursued internationally (Chapter 9). This perspective on global competitiveness emphasizes the need for more cooperative strategies because the means of competition within the boundaries of a specific institutional setting reach their limits in a context where the same institutions cannot be taken for granted. Under such circumstances, being able to formulate cooperative strategy may be the only way to competitive advantage (Chapter 10).

Building on Part 1, Inputs and Part 2, Formulation, Part 3's five chapters are devoted to 'how to get it done'. The critical role of strategic leadership (Chapter 11) opens this part and explains the institutional setting in which strategic leaders operate. Chapter 12 examines corporate governance and illustrates the similarities and differences in customs, rules and regulations that support or afflict leaders in their quest to implement strategies by designing the organizational structure and establishing controls (Chapter 13). In order to innovate and increase the odds of long term viability of companies, strategic leaders have to find ways to start new corporate activities without disrupting the organization which is the basis of Chapter 14 on strategic entrepreneurship. The implementation of strategies against a backdrop of rapidly changing environments where dynamic competition alters the configurations of inputs, strategies and outcomes cannot be static. Strategic renewal (Chapter 15) is a key concept which shows how strategic leaders make choices to escape their legacy and to engage, over time, in a new and better fit between the organization and its environment. This chapter concludes Part 3 and explains how firms can sustain above-average returns. Feedback from the market and the broader environment then inform a company's strategic leaders' vision and mission often triggering a new analysis of inputs (Part 1), alternative formulations (Part 2) and differing means of implementation (Part 3). While this logical sequence of inputs, formulation and implementation is compelling, we acknowledge that the world of practice often fails to conform to such order and rational behaviour. Our attempt to reflect the interconnections between themes and topics in different chapters can be seen in the frequent links made across chapters. Seeking to reveal this complex reality with cross-references we also try to keep the structure of the ideas and themes crisp. In short, our quest for rigour and relevance in helping you succeed with strategic management is what you will find in this book.

## Currency

The authors employ the Citibank (North America) dollar/euro conversion rate as applicable on 13 May, 2010: 1 US dollar = 0.78746358 euros, and British pound/euro conversion rate as on 6th June, 2010: 1 British pound = 1.19660 euro.



# ABOUT THE AUTHORS

## Henk W. Volberda

Henk W. Volberda is Professor of Strategic Management and Business Policy and Director of Knowledge Transfer at the Rotterdam School of Management, Erasmus University (The Netherlands), where he previously served as Chair of the Department of Strategic Management and as Vice-Dean of the Business School. He is Director of the Erasmus Strategic Renewal Centre (ESRC) and Fellow of the Strategy Research Program of the Erasmus Research Institute of Management (ERIM). He is also Chairman of the Executive Board and Scientific Director of the top institute INSCOPE: Research for Innovation, and Board member of the Netherlands Institute for Social Innovation (NCSI). Moreover, he is Vice-President of the European Academy of Management (EURAM) and Chair of the Interest Group Strategic Management.



Henk Volberda has been a visiting scholar at the Wharton School at the University of Pennsylvania and Cass Business School, London. Professor Volberda obtained his Ph.D. cum laude in Business Administration of the University of Groningen. He teaches strategic management, strategic business planning and strategy process at all levels (undergraduate, masters, doctoral). Henk Volberda is also active in executive education and consulting and has worked with many large European corporations, including ABN Amro, Atos Origin, Air France KLM, BP, Cap Gemini, Coface, DSM, Ericsson, ING, KPN, NXP, Rabobank, Randstad, Philips, Schlumberger, Vopak and Shell.

His research on strategic flexibility and organizational renewal received many awards, including the NCD Award 1987, the ERASM Research Award 1994, the Erasmus University Research Award 1997, the Igor Ansoff Strategic Management Award 1993, the Dutch ROA Award for best consultancy paper, the Cap Gemini Ernst & Young Strategy Award 2003, the ERIM Impact Award 2003, 2005 and 2007, the ERIM Top Article Award 2007 and the SAP Strategy Award 2005. His work on strategic renewal, coevolution of firms and industries, knowledge flows, new organizational forms and innovation has been published in *Academy of Management Journal*, *Academy of Management Review*, *Business Strategy Review*, *Decision Support Systems*, *European Business Forum*, *European Management Journal*, *European Management Review*, *Group & Organization Management*, *International Journal of Disclosure and Governance*, *International Journal of Business Environment*, *International Studies of Management & Organization*, *Journal of Business Venturing*, *Journal of Management Studies*, *Journal of International Business Studies*, *Long Range Planning*, *Management Science*, *Omega*, *Organization Development Journal*, *Organization Studies*, *Organization Science* and *Schmalenbach Business Review*. He co-edited special issues of *Organization Science*, *Journal of International Business Studies*, *Journal of Management Studies*, *International Business Review* and *Technology Analysis and Strategic Management*.

He is serving as a member of the Editorial Review Board of *Journal of Management Studies*, *Journal of Strategy and Management*, *Global Journal of Flexible Systems Management*, *Long Range Planning*, *Management Executive*, *Organization Studies* and *Organization Science*. He was Senior Editor of *Long Range Planning* and *Journal of International Business Studies*. His monograph, *Building the Flexible Firm: How to Remain Competitive* (Oxford University Press, 2001) received wide acclaim and his book with Tom Elfring, *Rethinking Strategy* (Sage, 2001), was awarded with the ERIM Best Book Award.

## Robert E. Morgan

**Robert E. Morgan** holds the Sir Julian Hodge Professorship, and is both Department Chair and Professor of Marketing and Strategy at Cardiff Business School, Cardiff University (UK), where, until recently, he also served as Associate Dean. He has previously held industrial appointments in the international electronics sector and been Visiting Scholar at INSEAD, France, and Visiting Professor at the ALBA Graduate School of Business in Athens, Greece. His strategy teaching experience has ranged from strategic management principles and practice to advanced strategy masterclasses and workshops spanning undergraduate, postgraduate and post-experience levels. He is a Fellow of the Higher Education Academy, a Chartered Marketer and a Fellow of the Chartered Institute of Marketing and Academy of Marketing Science. His contributions to many other professional organizations include the Strategic Management Society, American Marketing Association, European Marketing Academy and British Academy of Management. He was a founding member of the Academy of Marketing Research Committee and has served as a Senator to the Chartered Institute of Marketing. Having published more than one hundred scholarly articles in marketing, his recent research focuses on mainstream strategy and the marketing and strategy interface. From this research, articles from his capabilities-based projects have appeared in *Strategic Management Journal*, *Journal of Business Research*, *European Management Journal* and *Long Range Planning*; international entrepreneurship projects have appeared in *Journal of the Academy of Marketing Science*, *Journal of International Marketing* and *Omega*; and, organizational learning projects have appeared in *Journal of Management Studies*, *British Journal of Management*, *Group & Organization Management* and *Industrial Marketing Management*.



He has presented to academic, executive and student audiences in Argentina, Austria, Denmark, France, Germany, Greece, Iceland, Italy, Malaysia, Mexico, Norway, Spain, Turkey and the USA. He is the recipient of several distinctions for his executive white papers, management writing and teaching excellence awards with the most recent being a Best Paper Prize at the Strategic Management Society conference. He serves on the Editorial Review Boards of six international journals and was Co-Editor of *International Marketing Review*.

Rob Morgan has been engaged as a Special UK Government Advisor since 1997 drawing upon his research expertise in international entrepreneurship. He has conducted extensive government advisory work ranging from the carrying out of



tailored primary research activities through to project impact, evaluation and assessment of policy initiatives. In addition, he has been engaged in applied research, consulting and executive education activities and has worked with the European Union and UK Government Departments (UK Department of Business, Innovation and Skills; Foreign and Commonwealth Office; Her Majesty's Treasury) as well as public bodies and private sector corporations such as British Trade International, Welsh Development Agency, The Environment Agency, BBC, S4C, PwC Management Consultants, RS Components Limited, Dell Corporation, Siemens plc, and, BT plc.

## Patrick Reinmoeller

**Patrick Reinmoeller** is Professor of Strategic Management and Director of the Breakthrough Strategic Thinking Program at Cranfield School of Management, Cranfield University (UK). He is Visiting Professor at Rotterdam School of Management and Core Member of the China Business Research Centre at Erasmus University (Netherlands). Recently, he has been appointed as Visiting Professor to the Gordon Institute of Business Science at the University of Pretoria (South Africa). Prior to joining Cranfield University he was a full time faculty member at Erasmus University and the Graduate School of Knowledge Science, Japan Advanced Institute of Science and Technology. He joined JAIST after completing his post-doc research at the Institute of Innovation Research and the Faculty of Commerce, Hitotsubashi University (Japan). Patrick Reinmoeller was educated in Italy, Japan and Germany. Professor Reinmoeller received his PhD (cum laude) in Business Administration at the University of Cologne (Germany).



Patrick Reinmoeller has been a visiting scholar at the Graduate School of International Corporate Strategy and the Institute for Innovation Research IIR at Hitotsubashi University (Japan), LIUC University Castellanza (Italy) and St. Gallen University (Switzerland). Patrick Reinmoeller's research interests include (a) innovation and knowledge creation, (b) management practices and concepts, (c) international strategy, in particular of Asian corporations and corporations in Asia. He teaches strategic management, strategic business planning and strategic innovation at all levels – undergraduate, masters (MBA) and doctoral. Dr. Patrick Reinmoeller develops and leads customized company modules and courses for executives, MBA modules on Strategy, International Strategy and Innovation. He won several best teaching awards.

He is active in executive education and consulting in the areas of strategy development, implementation, and innovation. He has worked with large international organizations such as ABN Amro, Atos Origin, BankSeta, Barr, Deutsche Telecom, Eisai, Grohe, GlaxoSmithKline Biologicals (GSK Bio), ING, International Atomic Energy Agency (IAEA), International Filmfestival Rotterdam (IFFR), KPN, UK Ministry of Defence, Unicef, Mori Building, Philips, Shell, Schlumberger and others.

His research on innovation, knowledge creation and strategy has been published in leading journals in Europe, Asia and the US. He is associated editor of the *International Journal of Business Environment* and a member of the editorial board of the *International Journal of Learning and Intellectual Capital*, *International Journal of Technology Intelligence and Planning*, *International Journal of Strategic Change Management*. He reviews for *Academy of Management Review*, *Organization*

*Science*, *Organization Studies*, *MIT Sloan Management*, *Journal of Management Studies*, and other leading journals, and he has won reviewer awards of the Business Policy Division and Organization and Management Theory (OMT) Divisions at the Academy of Management. He has been a member of the research committee of the OMT Division since 2008.

Patrick Reinmoeller's forthcoming book *The Ambidextrous Organization*, a monograph which addresses the ways to manage paradox today is scheduled to appear in Spring 2011. His most recent paper: "The Lost Decade: Rethinking Presence and Performance of Japanese Corporations in International Competition" appeared in autumn 2010 in the *Hitotsubashi Business Review*, the premier academic journal for executives in Japan. His paper "Embedding CSR" is forthcoming in the *International Journal of Business Ethics*, UIBE, Beijing.

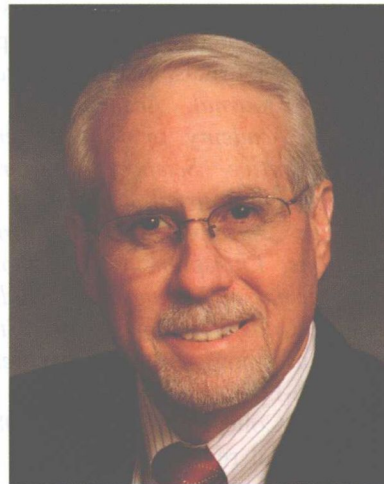
Patrick enjoys Tai Chi, Kendo, Tennis, Squash and languages.

## Michael A. Hitt

**Michael A. Hitt** is a Distinguished Professor and holds the Joe B. Foster Chair in Business Leadership at Texas A&M University, USA. He received his Ph.D. from the University of Colorado. He has co-authored or co-edited 26 books and 150 journal articles.

Some of his books are *Downscoping: How to Tame the Diversified Firm* (Oxford University Press, 1994); *Mergers and Acquisitions: A Guide to Creating Value for Stakeholders* (Oxford University Press, 2001); *Competing for Advantage* 2nd edition (South-Western College Publishing, 2008); and *Understanding Business Strategy* (South-Western College Publishing, 2006). He is co-editor of several books including the following: *Managing Strategically in an Interconnected World* (1998); *New Managerial Mindsets: Organizational Transformation and Strategy Implementation* (1998); *Dynamic Strategic Resources: Development, Diffusion, and Integration* (1999); *Winning Strategies in a Deconstructing World* (John Wiley & Sons, 2000); *Handbook of Strategic Management* (2001); *Strategic Entrepreneurship: Creating a New Integrated Mindset* (2002); *Creating Value: Winners in the New Business Environment* (Blackwell Publishers, 2002); *Managing Knowledge for Sustained Competitive Advantage* (Jossey-Bass, 2003); *Great Minds in Management: The Process of Theory Development* (Oxford University Press, 2005), and *The Global Mindset* (Elsevier, 2007). He has served on the editorial review boards of multiple journals, including the *Academy of Management Journal*, *Academy of Management Executive*, *Journal of Applied Psychology*, *Journal of Management*, *Journal of World Business*, and *Journal of Applied Behavioral Sciences*. Furthermore, he has served as Consulting Editor and Editor of the *Academy of Management Journal*. He is currently a co-editor of the *Strategic Entrepreneurship Journal*. He is president of the Strategic Management Society and is a past president of the Academy of Management.

He is a Fellow in the Academy of Management and in the Strategic Management Society. He received an honorary doctorate from the Universidad Carlos III de Madrid and is an Honorary Professor and Honorary Dean at Xi'an Jiao Tong

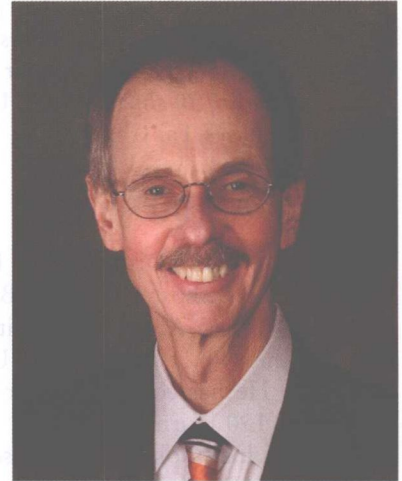




University. He has been acknowledged with several awards for his scholarly research and he received the Irwin Outstanding Educator Award and the Distinguished Service Award from the Academy of Management. He has received best paper awards for articles published in the *Academy of Management Journal*, *Academy of Management Executive*, and *Journal of Management*.

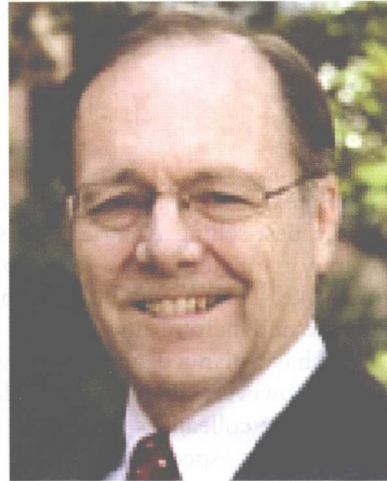
## R. Duane Ireland

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