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Boards strategizing in liminal spaces: Process and practice, formal and informal

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ABSTRACT

Boards operate notionally in a liminal, nonhierarchical space, neither inside the company nor outside, creating ambiguity between service and control functions and fostering tolerance of it. With repeated corporate governance crises, however, new prescriptions institutionalized in law, regulation, and codes of conduct have added significance to the control side, marked by monitoring and compliance tasks. Taking a cue from the strategy process and strategy-as-practice literature, this study revisits the work of directors on the service side: their engagement in strategizing. Formalization of board processes has led to greater structure and reduced the liminality of the board. Using interviews with 20 directors from a range of organization types, this study finds that directors experiment respond to increased institutionalization of board practice by seeking out new liminal spaces and informal practices, with implications for theory of boards, board activities, and public policy.

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1. Introduction

Directors have multiple identities, both insider and outsider, conflicted between service and control functions (Hillman, Nicholson, & Shropshire, 2008). They are urged to provide control in agency theory (Fama & Jensen, 1983; Jensen & Meckling, 1976) and to provide service in stewardship theory (Davis, Schoorman, & Donaldson, 1997). What was once considered an elite and professional domain, largely without external prescription, has become articulated and then institutionalized through codes, laws and regulation, focusing on the control side. What has happened then to service and, in particular, to the board's contribution to strategy?

The board's role in strategy has been a subject of process-inspired investigation, both before and after the corporate governance crises of the early 2000s. These studies found a limited role in strategy making by boards, authorizing but only rarely formulating strategy (McNulty & Pettigrew, 1999; Pye, 2002; Stiles, 2001), and more recently signs of dissatisfaction over how little room was left for the creative side of being a director (see review by Pugliese et al., 2009).

In the mainstream corporate governance literature and policy

documents, nonexecutive directors are outsiders, brought inside primarily to challenge (control) and to impart new ideas and facilitate access to scarce and valuable external resources (service). Executive directors are insiders invited to act as outsiders, providing detailed understanding of operations (service) while also challenging their executive peers (control). The chair, particularly in the model of the nonexecutive, independent chair of the UK board, acts as a bridge between executives and nonexecutives.

As this paper argues, together they create and inhabit a liminal space (Turner, 1977), neither inside nor outside. The freedom from internal routines and institutionalized behavior should free up thinking and encourage both challenge and contributions of new insights. However, the institutionalization of formal board practices can create what Cohen (2007) and Pentland and Feldman (2008) term "dead" routines that inhibit creative contributions. They do so by asserting hierarchy and structuring what had been a liminal space. In so doing, it solidifies the line between inside and outside.

This study examines what happens between directors under the pressure of increasing institutionalization of the boardroom. Taking a cue from the literature of strategy process (Pettigrew, 2012) and strategy-as-practice (Rouleau, 2013; Whittington, 1996), and from studies of liminal actors other than board members (Czarniawska & Mazza, 2003; Sturdy, Schwarz, & Spicer, 2006), it explores how boards strategize in the wake of the corporate governance crisis of

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the early 2000s and after the long financial crisis later in that decade.

First, the contributions of this paper lie in identifying emerging, informal practices to de-structure the board to recreate liminality and reassert a strategic role for the board. These practices are valorized, creating new rituals and routines away from the boardroom, restructuring a liminal social space to facilitate the service role of boards separate from the boardroom and its control-focused formalities. Second, we find that boards may seek to adopt more informal practices to overcome the rigidities of institutionalized control-oriented pressures and de-institutionalize, at least temporarily, the logic of boards as mechanisms of control. Third, the study outlines research directions to establish how board practices inform strategizing and its outcomes, and importantly into what risks develop from doing such suspension of the control function, and the implications for theory, practice, and public policy.

The paper is structured as follows: We begin with the concept of liminality, a condition arising in the anthropology literature of being on the threshold of a more structured state, which has attracted attention in organization studies in the past decade. Next, we consider institutions and their role in constraining certain actions while easing the path for others, which then points toward a liminal interpretation of board work and how that work has become more structured in response to successive corporate governance failures. We then explore the literature on one aspect of directors' work—the board's role in strategy. After a brief exposition of research on strategy process and practice and a discussion of methods, we present findings of an exploratory study with 20 directors of different types of companies in the British Channel Islands. We conclude by suggesting that directors, and in particular the nonexecutives, see their role not just in bringing outside perspectives and monitoring management but also as unsettling hierarchies to spur creative thinking by boards, both inside the boardroom and in informal, liminal spaces.

2. Literature review

This paper integrates concepts in three strands of the literature: organization studies, corporate governance, and strategy. The concept of liminality is set against strategy processes and practice and then reset in the context of the work of boards of directors.

2.1. Liminality

The concept of liminality was introduced by the French anthropologist [van Gennep \(1909/2013\)](#) in discussing the transitional phase involved in social rites of passage. As developed by [Turner \(1977\)](#) in work on African tribal practices, liminality is the space and time on the *limen*, Latin for *threshold*, situated between one state and the next. Turner's work concerned rituals of initiation, during which the innocence and freedom of youth gives way to the hierarchy and order of adult society. It is a social space of ambiguity, in which the elders join the initiate as equals in play, largely without rules and structures, and then introduce order and assert authority during the transition to adult society. Liminal processes offer a blend “of lowliness and sacredness, of homogeneity and comradeship” ([Turner, 1977](#), p. 96). Liminality thus fosters a sense of temporary equality among participants, which Turner calls anti-structure, and a sense of fellow feeling, which he terms *communitas*. In organizational studies of change (e.g., [Pettigrew, 1987](#)), liminality is part of the inner context, facilitating processes between actors.

In recent years, the concept has been used to explain a number of organizational phenomena. As [Sturdy et al. \(2006\)](#) observed, the

drive for flexibility in strategic management has led to a focus on what occurs at the threshold of organizations. The dividing lines between organizations have become blurred by the impermanence of jobs ([Conroy & O'Leary-Kelly, 2014](#); [Garsten, 1999](#)), by seeing enterprises operating as networks ([Tempest & Starkey, 2004](#)) or as nodes within networks ([Powell, White, Koput, & Owen-Smith, 2005](#)), or through strategic alliances or in ecosystems of enterprises and entrepreneurs ([Rong & Shi, 2014](#)).

Liminality involves an “unstable zone where the established rules are suspended; it is a culturally creative and in a sense dangerous space” ([Kennedy & Fiss, 2013](#), pp. 1146–1147). Liminal spaces are ones where individual actors suspend allegiances to their “home” organization or identify with multiple organizations and the *communitas* of the collective. They involve closeness, not separation, and the absence or suspension of power; they are the lived experience, albeit temporary, of those who inhabit them (cf. [Taylor & Spicer, 2007](#)).

Analogies to rites of passage are obvious when new employees join an organization or enter less well-defined associations, where a transition from one state to another involves ambiguity, development of ties, and the temporary suspension of hierarchy. But organizational scholars have also identified liminal spaces of a more permanent type. For example, [Sturdy \(1997\)](#) viewed consultants as actors who both address and reinforce management anxiety. Building on that view, [Czarniawska and Mazza \(2003\)](#) observed that consultants create liminal spaces and then inhabit them for long periods: “there are a growing number of professionals who accept liminality as an ever present condition and thereby end it” (2003, p. 286).

Another study of management consulting ([Sturdy et al., 2006](#)) found that liminal spaces, such as working dinners, were used tactically by consultants to build momentum for organizational change. The study concluded that liminal spaces can operate in parallel with more formal organizational spaces and can be used to color them. Moreover, while liminal spaces may set aside the formal hierarchies, they nonetheless may have “precisely and socially defined rituals and routines, beyond those associated with transition from one state to another” and be “highly structured and conservative as well as being creative and unsettling” ([Sturdy et al., 2006](#), p. 931). These studies suggested that liminal spaces might supplant one set of rules with another, with the effect of deinstitutionalizing, at least temporarily, the existing hierarchy to open new avenues of thinking.

2.2. Liminality and (de)institutionalization

Early studies drawing upon institutional theory sought to explain the persistence of social structures and practices ([DiMaggio & Powell, 1983](#); [Zucker, 1977](#)) even when they had ceased to serve the intended purpose (e.g., [Meyer & Rowan, 1977](#)). While explaining continuity, this work left unanswered how change occurs in highly institutionalized settings.

[DiMaggio \(1988\)](#) introduced the concept of institutional entrepreneurship as a mechanism to explain the change in institutionalized settings. [Greenwood, Suddaby, and Hinings \(2002\)](#) saw external jolts precipitating a process of deinstitutionalization, in which new actors or new relationships between actors permit institutional entrepreneurship to surface. Institutional logics ([Friedland & Alford, 1991](#); [Thornton, Ocasio, & Lounsbury, 2012](#)) embed meaning to the rules and justify the hierarchies to give legitimacy to incumbent practices. In liminal spaces, logics are suspended along with hierarchies and rules, which can be seen as inducing at least temporary deinstitutionalization. Using liminal spaces can be a mechanism of responding to an external jolt or as a means of provoking change in anticipation of, or absent, such a jolt.

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