Take a Stand or Keep your Seat: Director Turnover after Activist Challenges

This paper explores how contentious corporate crises -- i.e., charges of controversial political or social behavior -- affect the loyalty of a firm's most elite leaders: the board of directors. We exploit a sample of social movement boycotts, characterizing these as carriers of salient cues about a firm's character and values that will differentially affect individual directors, depending on their ideological alignment with the challengers. We argue that boycotts that problematize a firm’s values will disproportionately prompt the exit of directors whose values align with the activists, while encouraging entrenchment among directors whose values are opposed to activists. The results of our study largely support our claims. First, we provide evidence that boycotts represent meaningful crises for boards, provoking a significant increase in turnover at targeted firms. At the director level, we find that the extent of an ideological match between a board member and the activist challengers predicts subsequent director exit. While this general pattern holds across the ideological spectrum, we also show that conservatives, as compared to liberals, are more prone to entrenchment in the face of challenges from the opposition.