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Corporate social responsibility in the age of activist directorships

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Abstract

Research Summary: We draw attention to a rapidly emerging phenomenon—the appointment of activist-nominated directors to boards—that could have consequences for stakeholders. Although appointing an activist director tends to improve firm value for shareholders, we uncover a hidden externality wherein it also yields increased reports of stakeholder harm. We introduce activist directors to the management literature and examine an array of considerations with a view toward launching a stream of literature that explores nuanced forms of activist directorships, intemporal trade-offs in their influence, and the breadth and depth of their behavioral consequences for firms.

Managerial Summary: Historically, activist shareholders have primarily tried to affect managerial decision-making from their vantage point as outsiders. Today, activist investors are going further by demanding their own seats at the boardroom table. We examine the consequences of these activist directorships, finding that they are associated with increased reports of stakeholder harm. Supplemental analyses show that, while activist directors bring immediate benefits to shareholders, they appear to impose a managerial myopia wherein executives become less inclined to make long-term investments. Moreover, the adverse effects on stakeholder harm are most profound when a director is a delegate, meaning they work directly for an activist investor, as opposed to a trustee, who is appointed by, but does not work for, an activist investor.

KEYWORDS

board of directors, corporate governance, corporate social responsibility, shareholder activism, stakeholders

1 | INTRODUCTION

Organizational scholars have long been interested in understanding how ownership by different types of shareholders affects corporate social responsibility (CSR). Studies have investigated the CSR consequences of ownership by a variety of different types of shareholders, such as foreign investors, pension funds, and hedge funds (DesJardine et al., 2023). Increasingly, though, shareholders have expressed frustration with trying to influence firms solely via owning shares and voicing their interests from outside an organization's boundaries. Instead, they are forcing their way into boardrooms by nominating their own directors in activist campaigns, thus blurring the boundary between internal and external corporate governance. Dubbed the new sheriffs in America's corporate boardrooms, these activist-sponsored directors (or "activist directors," meaning directors who were nominated by activist investors) have become a fixture on today's corporate landscape. By one account, over the past decade, activist investors have secured almost 250 board seats per year and are pursuing directorships at a steadily increasing rate (Insightia, 2023). For scholars interested in CSR, this phenomenon raises important questions, perhaps most foundational of which is: *What are the effects on stakeholders when firms appoint activist directors to the board?*

To get their nominees approved, activist investors almost universally espouse the financial benefits their appointments would offer to shareholders, but we develop and test ideas concerning a so-far veiled consequence of activist directorships. Board seats grant shareholders inordinate power in the boardroom and afford them a unique internal position from which to impose their interests onto corporate agendas. Consequently, governance scholars have long acknowledged the importance of board composition in shaping firm outcomes (e.g., Quigley & Donald, 2012) and investigated phenomena wherein different types of shareholders, such as family owners and vested executives, can serve as directors (e.g., Boivie et al., 2016). However, prior studies have not examined the strategic consequences of appointing activist directors. This is an important omission in the literature that could be consequential to CSR because activist directors introduce an influence channel for capital market actors, but not other stakeholders, to gain sway over organizational decisions and priorities.

With this in mind, we investigate the influence activist directors have on reports of stakeholder harm, by which we mean a belief or perception that stakeholders may have been adversely affected, directly or indirectly, by the firm's behavior. To examine this issue, we adopt a two-pronged approach. First, we formally hypothesize, and test, the central relationship between activist directorships and stakeholder harm. Second, in a series of supplemental tests, we examine several complexities of this relationship that we think could serve as a launching point for research on activist directorships. These include heterogeneity in the types of activist directors appointed to boards, intemporal trade-offs in their influence on firms, and the breadth and depth of their behavioral consequences for different types of stakeholders.

Our study is motivated, in part, by the notion that the central relationship at hand is non-obvious. On the one hand, activist directors could reduce reports of stakeholder harm at the firms whose boards they join. Directors have a fiduciary duty to shareholders, which some argue necessitates safeguarding stakeholder interests (Harrison et al., 2020). Activist directors might focus on those duties, curtailing corporate behavior that could harm stakeholders. This aligns with practitioners who believe that these directors "add a lot of value" to corporate boards because "they're well prepared, they ask good questions, [and] they do research" (Barton & Koller, 2015: p. 2). On the other hand, and consistent with the logic we pursue, the appointment of activist directors could increase reports of stakeholder harm by shifting organizational priorities to the immediate financial interests of shareholders and away from the interests of stakeholders. If activist directors are willing to compromise stakeholder interests, it could propel organizational practices that harm stakeholders to the point where outside audiences take notice, thus yielding more reports of harm.

Our examination of the phenomenon, therefore, extends the literature on CSR (DesJardine et al., 2023) by considering how activist directors affect public reports of stakeholder-related behavior. Activist investors are transparent about their motivations for obtaining board seats, which typically focus on financial and/or competitive outcomes (Bebchuk et al., 2020). However, we suggest that their rhetoric about value creation could belie an unseen motivation for financial returns that permits a willingness to compromise stakeholder interests. CSR researchers have long been concerned with corporate governance antecedents to stakeholder outcomes, and our study adds to this body of work by introducing a new and previously overlooked aspect of shareholder influence.

Our paper also contributes to the literature on board composition and shareholders as a mechanism of corporate governance. Prior studies have considered scenarios where directors are also shareholders, but Connelly (2021: p. 437) notes that activist directors constitute "an entirely new type of director, a shareholder-nominated director, that has become increasingly prevalent but received little academic attention" and goes on to suggest that "few have empirically evaluated the strategic consequences of shareholder-nominated directors." Therefore, in addition to our main hypothesis, we offer a range of considerations that collectively demonstrate ways in which researchers might delve into understanding activist directorships to uncover nuanced aspects of the phenomenon that might otherwise be obscured.

2 | THEORETICAL DEVELOPMENT

With a board seat, activist investors can gain unique insight into a firm and its managers' decision-making, reducing the information disadvantage of operating outside an organization's boundaries (Coffee Jr et al., 2019). From inside the boardroom, an activist director can leverage this information advantage to strategically promote the nominating investors' priorities. A board seat, for instance, enables activist directors to form coalitions with other board members who share similar sentiments and use these commonalities to rally support for their own agenda. Activist directors can also oppose organizational decisions that they do not see as being in the interest of their sponsoring investor. They can propose new plans and redirect firm strategies in real time. Therefore, with the power board seats confer, activist directors can work to align organizational decisions with the interests of the investor that sponsored them, especially if they wish to secure future appointments with that investor or other activist investors.

An activist director's presence and behavior on the board could impact firm outcomes in a range of ways (Taleska, 2020). Because activist investors tend to prioritize short-term financial returns over long-term outcomes (DesJardine et al., 2022; DesJardine & Durand, 2020), activist directors are likely to focus on improving a firm's immediate returns to shareholders. The effect of activist directors on a wider set of non-financial outcomes that relate to the interests of non-shareholding stakeholders, though, is less obvious. While activist directors would not pursue stakeholder harm for its own sake, it could be an unintended side effect. It is difficult to measure the origin of decisions and behavior that leads to stakeholder harm, but we can develop and test ideas about externally observed reports about actions that affect stakeholders.

We envision two competing perspectives about how activist directors might affect reports of stakeholder harm. On the one hand, the diligent monitoring that activist directors bring to the boardroom could safeguard stakeholder interests and thus reduce corporate behavior that marginalizes stakeholders. Activist directors may find it necessary to protect stakeholders if they believe stakeholder interests are associated with the vitality of the company and, ultimately, improved financial performance. In this spirit, practitioners have noted that "The fiduciary duty of the board is to promote the value of the corporation. In fulfilling that duty, directors must exercise their business judgment in considering and reconciling the interests of various stakeholders" (Lipton et al., 2019). Moreover, the appointment of an activist director can be an affront to the existing board, so incumbent directors might exert additional effort to restore their own reputations, which they could accomplish by minimizing stakeholder neglect. In this scenario, boards and management teams could engage in stakeholder-conscious behavior as a means of self-preservation (Hubbard et al., 2017).

A competing logic, and one we espouse, suggests that activist directors could induce organizational change that deprioritizes stakeholder interests. If this occurs, there will be an increase in corporate behavior that puts stakeholders at risk and, consequently, more scenarios that reach a level where external audiences take note and issue reports of infringement on stakeholder interests. One reason this could occur is that many activist investors have relatively short investment horizons, often as short as a few months (Brav et al., 2008). While pursuing stakeholder interests may make fiduciary sense over the long term, the time horizons of most activist investors do not extend that far into the future. As a result, activist directors could advocate for allocating capital away from CSR and its commensurate stakeholder interests and toward projects that are better positioned to deliver near-term financial results (DesJardine & Durand, 2020). Protecting the interests of stakeholders often incurs costs and brings uncertain returns, particularly over the long run, which puts stakeholder interests at odds with immediate financial concerns. Deprioritizing stakeholder interests could turn managerial attention away from socially responsible behavior and foster an environment in which stakeholder violations become more commonplace. If this occurs, we should expect to see more reports of stakeholder harm following the appointment of an activist director.

From this logic, we contend that even a single activist director (a common concession following an activism campaign) can have considerable influence over the extent to which boards are willing to compromise stakeholder interests in favor of shareholder interests. Appointing an activist director puts incumbent directors in a defensive position, making them less willing or able to express inclinations that contradict the activist investor's preferences. Following their appointment, activist directors serve an oversight and reporting role for board decision-making (Coffee Jr et al., 2019), which is tantamount to publicly repudiating the incumbent directors and their processes. One incumbent director we interviewed explained, "[they're telling us] what we've been doing is wrong … it all creates defensiveness." Moreover, activist investors can credibly threaten to return to the court of public opinion or shareholder votes if incumbent directors resist the shareholder-centric ideas put forth by their appointed directors. Activist investors are known to use such tactics, and many activist-secured directorships have been obtained through those means, so threats of public escalation are valid. One activist investor we interviewed reasoned, "the whole point is to make it clear that you're prepared to go back to the public… I threatened proxy battles on three different occasions [in the same company], and they caved each time." Taken together, these arguments lead us to hypothesize that:

Hypothesis 1. Appointment of an activist director (or directors) to the board is positively associated with reports of stakeholder harm.

3 | METHODS

3.1 | Sample

We obtain data from Insightia (formerly Activist Insight) on companies that had directors appointed to their board by an activist investor between 2008 and 2019. These data include the names of directors appointed by activists and the dates of their appointments. The start of our sampling window predates the uptick in activist directorships that began around 2010 and has increased nearly every year since then.

3.2 | Matching

We analyze our data using matched pairs of firms that appointed an activist director (i.e., treatment firms) and those that did not (i.e., control firms). To alleviate concern about potential differences between the treatment and control firms, we match firms using entropy balancing (Hainmueller, 2012). Entropy balancing weights each observation on a continuous scale to ensure an optimal balance across all covariates, so treatment and control observations are virtually indistinguishable from each other on all dimensions. Entropy balancing weights observations rather than dropping poor matches, so the entire sample is preserved.

The pool for matching encompasses all non-financial firms in the Compustat and CRSP universes that have data for our matching variables across our sampling period. Building on existing research, we identify a set of variables that can influence the likelihood that activist investors will target a firm, which we use as matching criteria. These include firm characteristics (i.e., firm size, age, and leverage); performance metrics (i.e., book-to-market ratio, stock market returns, and volatility); governance factors (board size and independence, CEO duality, number of local directors, and analyst coverage); and the firm's ownership structure (TMT and CEO ownership, institutional ownership concentration). We describe their operationalization and the rationale for selecting these variables in the Online Appendix.

Using these matching variables and their distributional properties (i.e., mean, variance, and skewness), we use entropy balancing to assign weights to control observations. We test for sufficient covariate balance to ensure that the distributional properties of the treatment observations and post-weighted control observations are nearly identical. The resultant weights assigned to each control observation are used in the subsequent regressions. Panel A of Table OA1 shows that, prior to matching, the two groups of firms differ across most of the matching criteria, which highlights the importance of achieving covariate balance to accurately estimate the effect of activist directors on stakeholder outcomes. As shown in Panel B of Table OA1, after applying the weights derived from entropy balancing, we find that the mean, variance, and skewness of the matching variables for the two groups of firms are nearly identical.

3.3 | Dependent variables

Our dependent variable is reported stakeholder harm. We theorize about reports of stakeholder harm because they are observable. It is difficult to determine exactly when the behavior that leads to harm begins in a company. Stakeholder harm often manifests when executives shift their organizational priorities away from the interests of stakeholders. When the focus of executives becomes sufficiently detached from stakeholders, an environment in which stakeholders might be harmed will take hold, and external audiences will take note.

We use three proxies to capture reports of stakeholder harm from different external observers. *Rater reports* have been widely used in existing research and are recognized as the most comprehensive means available for measuring a firm's treatment of its stakeholders. *Media reports* offer a somewhat different perspective insofar as they only capture incidents of stakeholder harm that rise to a level where journalists take notice. *Regulatory reports* of stakeholder violations offer still another perspective, which ensures that a firm's behavior is, in fact, a legal contravention of policy, laws, or norms and not merely an accusation of possible or perceived harm, which could impact the other two measures. All three of our operationalizations measure reports of stakeholder harm, so we do not capture instances in which firms engage in harmful behavior but escape detection. However, as each measure captures the assessments of a different external observer, similar changes across measures should indicate that activist directorships are, in fact, impacting a firm's orientation toward its stakeholders.

3.3.1 | Rater-reported stakeholder harm

First, we use MSCI environmental, social, and governance (ESG) KLD STATS (hereinafter KLD) to measure reported stakeholder harm from the perspective of CSR raters. KLD rates companies on a wide range of activities that reflect their relationships with various stakeholder topics and groups. For each topic or group, KLD counts the number of strengths and concerns a company has toward that stakeholder category. We use these data to measure *Rater-reported stakeholder harm* as a firm's sum of the total concerns in KLD's community, diversity, employees, product, environment, and human rights categories in the focal year (O'Sullivan et al., 2021). We exclude the corporate governance category because it is aimed at shareholders.

3.3.2 | Media-reported stakeholder harm

Our second proxy of reported stakeholder harm captures the construct through the lens of the media. Here we use RepRisk data to count the annual number of distinct stakeholder incidents a firm incurs based on media coverage (Bansal et al., 2022). RepRisk is a business intelligence data provider that screens over 100,000 media, regulatory, stakeholder, and other third-party sources in multiple languages daily for negative ESG events. After identifying an incident, RepRisk's analysts filter media coverage to remove duplicate reports of the same incident. We again exclude governance-related incidents because they are aimed at shareholders. We calculate *Media-reported stakeholder harm* as the number of distinct incidents of stakeholder harm reported about a firm in the focal year.

3.3.3 | Regulator-reported stakeholder harm

Our third proxy of reported stakeholder harm uses a regulatory lens. We obtain data on stakeholder regulatory violations from the Violation Tracker dataset compiled by the Corporate Research Project (Gamache et al., 2020). Violation Tracker identifies stakeholder regulatory violations by compiling information from various regulatory bodies, including federal agencies (e.g., the EPA and the OSHA), as well as state and local agencies, such as state attorneys general and local branches of the Department of Justice. *Regulator-reported stakeholder harm* is a count of the number of fines a firm incurs for violating the interests of stakeholders in the focal year.

3.4 | Independent variable

Our focal predictor variable measures the appointment of an activist director, or directors, to the board. Boards can be subject to more than one activist director appointment, but we are conceptually interested in comparing any board presence to no board presence for activist investors, so we measure this with a binary variable in our primary analysis. Here, we compute *Activist director* as 1 if a firm had at least one activist director in the focal year and 0 otherwise. Our analyses examine change in the independent variable, which considers the influence of the appointment of an activist director on the dependent variable. We also capture the extent to which removal of all activist directors from a board has an opposite effect on the dependent variable, but those cases are comparatively rare.

3.5 | Control variables

Using data from Compustat and CRSP, we include a range of firm-level control variables aimed at limiting the influence of confounding explanations. These include firm characteristics (i.e., firm size and leverage); performance metrics (i.e., stock market returns and volatility), governance factors (i.e., board size, CEO tenure and duality, the number of female directors, and directors with legal experience); and the firm's ownership structure (i.e., TMT and CEO ownership, activist ownership, and institutional ownership concentration). We describe their operationalization and the rationale for inclusion in the Online Appendix.

3.6 | Estimation technique

We use firm fixed-effects Poisson regressions to analyze our data, for several reasons. Our dependent variable is a count, so Poisson regressions are appropriate. Poisson regressions also

TABLE 1 Descriptive statistics and correlations.

	Variables	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1	Rater-reported stakeholder harm	1.00													
2	Media-reported stakeholder harm	0.46	1.00												
3	Regulator-reported stakeholder harm	0.20	0.17	1.00											
4	Activist director	−0.02	0.00	0.01	1.00										
5	Firm size[a]	0.32	0.35	0.18	−0.04	1.00									
6	Book-to-market	−0.01	−0.06	−0.02	−0.01	−0.34	1.00								
7	Stock returns	−0.02	0.01	0.02	−0.02	0.27	−0.28	1.00							
8	Stock return volatility	−0.06	−0.16	−0.08	−0.01	−0.51	0.06	−0.09	1.00						
9	Leverage	0.06	0.05	0.05	0.02	0.18	−0.18	−0.03	−0.03	1.00					
10	Firm age[a]	0.17	0.18	0.12	0.03	0.29	0.02	0.03	−0.35	0.02	1.00				
11	Board size[a]	0.20	0.24	0.14	0.02	0.61	−0.12	0.04	−0.32	0.22	0.31	1.00			
12	Independent directors[a]	0.19	0.23	0.13	0.04	0.59	−0.13	0.04	−0.30	0.22	0.30	0.94	1.00		
13	CEO duality	0.11	0.05	0.04	−0.09	0.10	0.01	0.02	−0.08	0.03	0.10	−0.02	−0.04	1.00	
14	TMT ownership (%)	0.08	0.07	0.06	−0.02	0.28	−0.08	0.04	−0.13	0.04	0.10	0.19	0.16	−0.04	1.00
15	CEO ownership (%)	0.08	0.08	0.06	−0.02	0.28	−0.09	0.06	−0.13	0.05	0.10	0.17	0.16	0.11	0.49
16	Institutional ownership concentration	−0.08	−0.09	−0.06	0.03	−0.49	0.15	−0.12	0.23	−0.05	−0.11	−0.33	−0.33	−0.04	−0.11
17	Analyst coverage[a]	0.24	0.22	0.12	−0.04	0.66	−0.20	0.15	−0.33	0.12	0.08	0.40	0.40	0.06	0.20
18	Activist ownership (%)	−0.02	−0.02	−0.01	0.12	−0.09	0.03	−0.04	0.07	0.01	−0.02	−0.02	−0.01	−0.03	−0.02
19	CEO tenure[a]	−0.01	−0.04	−0.02	−0.10	−0.02	0.03	0.08	−0.05	−0.05	0.06	−0.13	−0.17	0.43	−0.01
20	Female directors[a]	0.01	0.21	0.08	0.01	0.47	−0.15	0.04	−0.29	0.13	0.29	0.55	0.55	0.01	0.13
21	Legal directors	0.04	0.05	0.08	−0.01	0.09	0.00	−0.01	−0.06	0.08	0.07	0.14	0.12	0.03	0.04
22	Share repurchases	0.16	0.13	0.08	−0.04	0.26	−0.07	0.06	−0.16	−0.06	0.10	0.18	0.17	0.07	0.11
23	Dividends	0.02	0.03	0.02	0.05	0.04	0.03	0.00	−0.04	0.03	0.02	0.02	0.02	0.01	0.00
24	R&D spending	0.06	0.13	−0.03	−0.01	0.31	−0.23	0.07	−0.04	−0.11	0.03	0.15	0.17	−0.01	0.06

TABLE 1 (Continued)

	Variables	1	2	3	4	5	6	7	8	9	10	11	12	13	14
25	Capital expenditure	0.35	0.36	0.21	−0.02	0.83	−0.10	0.14	−0.44	0.31	0.33	0.58	0.56	0.12	0.23
	Mean	0.50	3.03	0.84	0.04	6.80	0.54	0.11	0.13	0.23	3.07	2.10	1.91	0.41	0.04
	S.D.	0.93	14.31	5.59	0.20	2.05	0.49	0.90	0.07	0.21	0.66	0.26	0.33	0.49	0.17

	Variables	15	16	17	18	19	20	21	22	23	24	25
15	Institutional ownership concentration	1.00										
16	Analyst coverage[a]	−0.11	1.00									
17	Activist ownership (%)	0.19	−0.29	1.00								
18	CEO duality	−0.01	0.08	−0.07	1.00							
19	CEO tenure[a]	0.12	0.02	0.01	−0.07	1.00						
20	Female directors[a]	0.14	−0.25	0.30	−0.04	−0.09	1.00					
21	Legal directors	0.04	0.01	0.03	0.02	−0.02	0.09	1.00				
22	R&D spending	0.10	−0.11	0.27	−0.03	0.02	0.11	0.00	1.00			
23	Capital expenditure	0.01	−0.02	0.01	−0.01	0.00	0.02	0.00	0.00	1.00		
24	Share repurchases	0.09	−0.17	0.24	−0.03	−0.04	0.13	−0.09	0.14	−0.01	1.00	
25	Dividends	0.24	−0.39	0.55	−0.06	−0.03	0.43	0.12	0.19	0.07	0.06	1.00
	Mean	0.03	0.08	1.80	0.01	1.75	0.60	0.32	2.24	0.59	1.82	3.47
	S.D.	0.13	0.09	1.11	0.04	0.93	0.51	0.47	5.29	6.68	2.17	2.14

Note: $N = 16{,}817$ for *Rater-reported stakeholder harm* and $N = 22{,}662$ for other variables.
[a]Variable is logged.

TABLE 2 Effects of activist directorships on reported stakeholder harm.

Variable	Model 1 Rater-reported stakeholder harm	Model 2 Rater-reported stakeholder harm	Model 3 Media-reported stakeholder harm	Model 4 Media-reported stakeholder harm	Model 5 Regulator-reported stakeholder harm	Model 6 Regulator-reported stakeholder harm
Activist director		0.25		0.16		0.20
		(.00)		(.04)		(.03)
Firm size	0.23	0.23	0.37	0.38	−0.06	−0.06
	(.00)	(.00)	(.00)	(.00)	(.35)	(.41)
Stock returns	−0.04	−0.04	−0.06	−0.06	0.15	0.15
	(.11)	(.08)	(.05)	(.05)	(.00)	(.00)
Stock return volatility	1.53	1.48	−0.73	−1.04	−0.53	−0.74
	(.00)	(.00)	(.33)	(.14)	(.51)	(.35)
Leverage	0.04	0.02	0.15	0.15	0.84	0.72
	(.83)	(.91)	(.51)	(.54)	(.01)	(.04)
Board size	0.22	0.16	0.37	0.34	−0.16	−0.09
	(.21)	(.31)	(.04)	(.06)	(.50)	(.68)
CEO duality	−0.11	−0.09	−0.00	0.02	−0.33	−0.33
	(.10)	(.18)	(.97)	(.81)	(.01)	(.01)
TMT ownership	0.40	0.39	−0.05	−0.06	−0.52	−0.60
	(.00)	(.00)	(.64)	(.60)	(.06)	(.03)
CEO ownership	−0.87	−0.85	−0.24	−0.26	0.45	0.45
	(.00)	(.00)	(.04)	(.03)	(.08)	(.07)
Institutional ownership concentration	1.83	1.56	−3.29	−3.43	1.53	1.47
	(.00)	(.02)	(.01)	(.01)	(.12)	(.13)
Activist ownership	−0.83	−0.95	1.46	1.45	0.38	0.29

TABLE 2 (Continued)

Variable	Model 1 Rater-reported stakeholder harm	Model 2 Rater-reported stakeholder harm	Model 3 Media-reported stakeholder harm	Model 4 Media-reported stakeholder harm	Model 5 Regulator-reported stakeholder harm	Model 6 Regulator-reported stakeholder harm
	(.02)	(.01)	(.01)	(.01)	(.64)	(.72)
CEO tenure	0.14	0.14	0.03	0.03	0.06	0.07
	(.00)	(.00)	(.31)	(.26)	(.19)	(.10)
Female directors	−0.54	−0.52	−0.16	−0.14	−0.12	−0.11
	(.00)	(.00)	(.08)	(.12)	(.26)	(.32)
Legal directors	−0.27	−0.26	0.01	0.03	−0.19	−0.17
	(.00)	(.00)	(.85)	(.68)	(.01)	(.02)
Constant	−2.17	−2.17	−0.96	−0.99	3.51	3.27
	(.00)	(.00)	(.12)	(.11)	(.00)	(.00)
Firm fixed effects	YES	YES	YES	YES	YES	YES
Year fixed effects	YES	YES	YES	YES	YES	YES
Observations	12,306	12,306	11,302	11,302	8846	8846
Pseudo R^2	.325	.326	.831	.831	.739	.740
Chi^2	136.6	151.2	115.5	126.6	53.02	57.27

Note: *p*-Values based on robust standard errors are reported in parentheses. Two-tailed tests.

allow us to control for time-invariant firm heterogeneity (Allison, 2005). As these models exclude firms with no stakeholder incidents at any point in our sampling window, we check the robustness of our findings using firm fixed-effects OLS regressions, which include firms without stakeholder incidents. Moreover, as we theorize that the appointment of an activist director to a board can influence the treatment of stakeholders, it is imperative to use a methodology that facilitates within-firm estimation, which our chosen methodological approach does. The dependent variable is measured at time $t + 1$ to help mitigate the potential for reverse causality.

4 | RESULTS

4.1 | Main results

Table 1 provides the descriptive statistics and correlations for all variables and Table 2 reports the regression outputs for the main analyses. The average variance inflation factor for variables used in our analyses is 1.36, suggesting that multicollinearity should not be a concern. After accounting for missing data, our final sample includes 22,662 firm-year observations from 3342 firms. Of these, there are 1080 observations in which the firm had at least one activist director on their board in the focal year. Among the sample firms, 10.51% had at least one activist director on their board at some point during the sampling window.

Models 1 and 2 of Table 2 show our analysis with *Rater-reported stakeholder harm* as the dependent variable, and Model 1 shows results with only control variables. The coefficient for *Activist director* is 0.25 ($p = .001$) in Model 2. To explain this in practical terms, in the year following the appointment of an activist director to the board, firms can expect to see an average increase of 0.19 additional reports of stakeholder concerns from external CSR rating agencies. At first glance, this might appear to be a modest figure, but the average number of stakeholder concerns in KLD in our sample is 0.50, so this represents about a 38% increase over the sample mean. Our results show that, out of all the firms that appointed an activist director, about 29% saw an increase of one or more rater reports of stakeholder concerns in the year after the director's appointment, and 5% incurred an increase of two or more reports in that year.

Models 3 and 4 show the same analysis with *Media-reported stakeholder harm* as the dependent variable, and Model 3 shows the results with only control variables. Here, the coefficient for *Activist director* is 0.19 ($p = .03$) in Model 4. This is again a meaningful influence because, following the appointment of an activist director to the board, firms incur an average of 1.16 additional discrete incidents of stakeholder harm reported by the media (i.e., not just an increase in reports about the *same* incident). The average number of media-reported incidents in our sample is 3.03, so this again constitutes about a 38% increase over the sample mean. Of all firms that appointed an activist director to their board, about 39% incurred an increase of one or more media reports about stakeholder incidents in the year after the appointment, and 32% faced an increase of two or more media reports in that year.

Models 5 and 6 show the results with *Regulator-reported stakeholder harm* as the dependent variable, and Model 5 shows results with only control variables. The coefficient for *Activist director* is 0.20 ($p = .04$) in Model 6. These results similarly indicate that, following activist director appointment, firms incur an average of 0.57 additional reports of stakeholder regulatory violations. The average number of reports of stakeholder violations in our sample is 0.84, so this is a meaningful increase of about 68% over the sample mean. Of all firms that had an activist director appointed to their board, about 31% were subject to an increase of at least one additional report of stakeholder regulatory violations in the year after the appointment, and 17% incurred an increase of two or more reports of violations.

4.2 | Robustness checks

We conduct several analyses to assess the robustness of our main findings. First, we conduct treatment correction analyses following the methodology prescribed by Lennox et al. (2012), as reported in Table OA2. Second, we mitigate concerns associated with using ratio variables (Certo et al., 2020), as reported in Table OA3. Third, we test our hypothesis using firm fixed-effects negative binomial regressions (reported in Table OA4) and firm fixed-effects OLS regressions (reported in Table OA5). Additionally, we find that using reach-weighted incident count measures of stakeholder harm, constructed from the RepRisk data, with (1) local, (2) regional, and (3) global reporting sources offer substantively similar results to those reported in our main analysis.

5 | SUPPLEMENTARY ANALYSES

5.1 | Heterogeneity in activist director appointments

Some activist directors are sole appointees to the board whereas others serve within a group of activist directors that were collectively appointed. Groups of activist directors could be highly consequential to board dynamics as they introduce a faction who could press other directors to take sides on issues. Some of the activist directors we consulted reported experiencing group hostility and being treated as outsiders, so obtaining multiple board seats could help them overcome those problems, strengthening their influence on firm decisions. Thus, we consider the effects of the number of activist directors on the board. We compute *Number of activist directors* as the count of the number of activist directors that sit on each firm's board in the focal year. As shown in Table OA6, the coefficient for *Number of activist directors* continues to predict each of the three dependent variables, suggesting there could be important distinctions wrapped up in the number of activist directors on a board.

In addition, among activist investors who gain board seats, there is variation in the type of relationship they have with their nominee. The nature of this relationship could affect the role an activist director plays on a board. We distinguish between two key types of activist directors with different relationships to the investors that put them on their focal board. The first type, which we call a *Delegate activist director*, works for the activist investor, such as a fund manager or principal at the institutional fund. The second type, a *Trustee activist director*, is appointed by the activist investor but does not work for them directly and often comes from a background in industry rather than finance, such as an ex-CEO or industry expert. Table OA7 shows the results of our analyses for these two different types of activist directors. As one might expect, given their more intimate tie to the investor, delegates have a considerable impact on stakeholder harm (using all three dependent variables) while trustees do not.

5.2 | Temporality in activist director demands

The notion that activist directors elevate the importance of short-term results is embedded in the logic of our theory. The immediacy of their demands could create managerial myopia that impacts stakeholder outcomes. To consider immediate organizational responses to activist directorships, we examine two mechanisms that offer shareholders instant financial returns: *Share repurchases*, equal to the natural logarithm of total shares repurchased in a year, and *Dividends*, measured as the ratio of the total value of dividends to the total number of outstanding shares. As shown in Models 1 and 2 of Table OA8, the appointment of an activist director can predict both these outcomes. Following the appointment of an activist director, firms repurchase an average of $5 million more stock than they had in the previous year (a 61% increase in share repurchases) and pay, on average, about 54 cents more dividends per share (a 90% year-over-year increase). It thus appears that activist directors have a powerful impact on orienting firms toward enriching shareholders.

In addition, activist directors may also affect more traditional types of strategic, long-term investments. Once an activist investor has representation inside the boardroom, they can introduce previously unconsidered points of view and ask questions that may have been overlooked had they not had access to the board. We, therefore, test our models with two different dependent variables: *R&D expenditures* (measured as the logarithm of total R&D spending) and *Capital expenditures* (measured as the logarithm of total spending on new capital). As shown in Table OA9, the appointment of an activist director can predict both these outcomes. Following the appointment of an activist director, firms reduce their R&D spending by an average of about $450,000 (an 8% decrease) and reduce their capital outlays by an average of about $5 million (an 11% decrease) per year. These results are consistent with the notion that activist directors are cost-conscious and orient firms toward delivering immediate change.

5.3 | Reach of activist director effects

We also consider the potential breadth of influence that activist directors might have on stakeholder harm. Activist investors could have a range of motivations for wanting a seat in the boardroom that result in varying perspectives about which stakeholders may be more, or less, important in their eyes. To consider the importance of activist director priorities, we explore subtle differences in our data regarding the types of stakeholders likely to be harmed following an activist director appointment. To do so, we categorize reports of stakeholder harm into four different types based on which stakeholder group is affected: environment, employee, community, and product (i.e., customers and suppliers). The impact on stakeholders is not uniform across types; the largest number of reports describe harm to employees and the fewest describe harm to the community. Nonetheless, we examine the groups separately, including specific models for rater, media, and regulator reports of harm aimed at each stakeholder group. Results are shown in Table OA10. Consistent with our expectation, these findings suggest in most cases that activist director appointments impose greater harm on peripheral stakeholders (i.e., the environment and community) than primary stakeholders (i.e., employees and product-related stakeholders).

Conversely, it could also be important to examine an activist directors' depth of influence. By depth, we mean the extent to which activist directors affect high-stakes stakeholder outcomes that are likely to engender reputational penalties. Activist directors could tip the balance of power on the board, potentially moving them into higher-stakes activities that have highly consequential outcomes. We, therefore, examine activist director influence on routine stakeholder violations versus more grievous stakeholder offenses. Our media-based operationalization of stakeholder harm is especially well-suited to this analysis, as RepRisk provides an assessment of the severity of each incident reported in the media (i.e., low, medium, or high), which reflects the extent of the incident's impact on stakeholders and allows us to test the effects of activist director appointments on media-reported stakeholder harm of varying severity. The results from this analysis, in Table S1, show that the appointment of an activist director is most strongly associated with medium-severity incidents, rather than high- or low-severity incidents. One interpretation could be that boards would likely attend to high severity matters regardless of the presence of activist directors on the board, and activist directors inspire sufficiently substantial organizational changes that most of the harm done to stakeholders is not of low severity.

6 | DISCUSSION

We develop ideas about activist directors, who have largely escaped academic attention, and whether they might impact firms and their stakeholders (Connelly, 2021). We test our ideas using reports from rating agencies, the media, and regulators, finding consistent results with respect to what they are reporting about increased violations of stakeholder interests following activist director appointments. We couple this with a series of post hoc considerations and analyses that offer a roadmap for research and first steps toward finding meaningful nuances embedded within the important phenomenon of activist directorships.

6.1 | Implications for research

Our study should be of interest to researchers working on CSR, who have long sought to explain why managers, positioned at a nexus of claims made by various stakeholder groups, prioritize some stakeholders over others (Freeman et al., 2004). The widely adopted stakeholder salience framework (Jones, 1995) posits that managers tend to prioritize stakeholders who have power, legitimacy, and urgency. This has proven to be a useful framework for explaining managerial attention to competing stakeholder demands. The phenomenon of activist investors finding their way onto boards, though, shifts the balance among these factors. Some shareholders have become tired of continually asserting the urgency, and defending the legitimacy, of their demands and have focused instead on tipping the balance of power in their favor by gaining seats at the boardroom table. Their campaigns for board seats invariably assert that the activist investor knows what is best for the firm and its shareholders, but we suggest, and find, that there are hidden externalities associated with activist directorships.

Our findings also contribute to stakeholder research on the trade-offs between different stakeholder interests. Stakeholder theorists have argued that companies can simultaneously address the desires of shareholders and other stakeholders without undermining the interests of either group (Mitchell et al., 1997). We agree this is possible, and even ideal, but we provide evidence of the difficulties managers might encounter when imbalances in board representation exist between stakeholder groups. Some argue that the notion of any shareholder or stakeholder having a higher priority than others is flawed (Jones et al., 2018). In support of their contention, our study offers preliminary evidence that the goal of managers attending to stakeholder interests could be complicated by the rise of activist directorships.

Our study is also of relevance to corporate governance scholars, including those who examine the influence of corporate ownership on strategic outcomes (Boss et al., 2013) and those interested in shareholder activism (DesJardine et al., 2024; Shi, Xia, and Meyer-Doyle, 2022; Shi et al., 2020). To investigate how a firm's principals shape the strategic actions and outcomes of firms, agency theorists often examine the percentage of shares owned by the firm's shareholders (e.g., Oehmichen et al., 2021). Relatedly, researchers working within the agency domain tend to focus on activism where the activist clears a certain threshold of ownership percentage. Yet, some of the most influential investors have been able to impact corporate decision-making with minimal ownership. In early 2021, for instance, the activist investor Engine No. 1 successfully appointed three of its four sponsored directors to the board of ExxonMobil with only a 0.02% ownership stake. Our study draws attention to this new influence channel that activist investors are using, which allows them to circumvent some of the challenges of acquiring large ownership stakes, and offers insights about directions this literature stream could go.

Our study builds on governance research that examines board composition and director identities. Some scholars have argued that the motives of individual directors are relevant to explaining their effectiveness in executing their directorship duties (Denes et al., 2017). We add activist directors to this mix because they are unique in that, when nominated by an activist investor, they may see themselves as directly representing one specific shareholder. Identifying and understanding the complexities of this connection is important and could inform prior research findings. For example, whereas Kassinis and Vafeas (2002) report that outside directors reduce environmental violations by firms, we find that activist directors (who are a subset of outside directors) increase these violations.

Finally, it is worth noting that, while our study introduces a potentially important empirical relationship to the strategic management literature, it also opens the door to what we hope will be a new stream of literature on activist directorships. Among the more important issues in this regard would be for future research to unpack the types of activist investors that are asking for, and obtaining, a seat at the boardroom table. For example, we know that activist directors are writing letters to management to request, or demand, boardroom representation, but we know little about the content of those letters or how activists can position their requests, or demands, for maximum effectiveness. Moreover, we know there are key differences in the temporal orientation of activist investors, but we know little about how their time horizons affect activist director nominations or the way their appointees operate on boards after being appointed.

6.2 | Implications for practice

Our findings are likely to be of use to a range of practitioners. The National Association of Corporate Directors (NACD) has developed training modules designed to help boards deal with activist demands for board seats (www.nacdonline.org). Our study provides such governance bodies with an initial academic foray, showing that boards should carefully consider the espoused motivations of activist investors who demand board representation. While activists will almost always claim to have the best interests of shareholders at heart, their rhetoric could disguise a subtle willingness to compromise stakeholder ideals with a view toward more immediate returns to shareholders, which is supported by several results from our post hoc analyses. Incumbent directors might also take note of how our findings could inform their engagement with activist directors appointed to their board. Given that boards are prone to failure in many dimensions (Hambrick et al., 2015), incumbent board members should be cognizant of how an activist director might change the nature of conversations that take place at board meetings and affect the processes by which decisions are made.

Legislators and policymakers, too, will find our study insightful. As activist investors have become increasingly demanding, rule-makers (including individual stock exchanges) have sought to respond in ways that simultaneously protect the interests of shareholders as well as other stakeholders. For example, some are asking about what hurdles shareholders should clear before they are allowed to nominate directors (e.g., minimum shares or minimum holding durations), others are inquiring about the processes by which nominations should occur (e.g., the means of proxy access and structures for threatening board replacement), and still others are considering the consequences of activist board appointments for other shareholders (e.g., minority shareholder infringement, information leakage). Our study points to a new dimension of activist directorships that demands the attention of regulatory bodies. While practitioners often seem to focus on the financial and competitive consequences of activist directorships, our findings reveal an important, but less obvious, influence on the wellbeing of stakeholders.

7 | CONCLUSION

Coffee et al. (2019, p. 381) asked, "what happens when an activist director goes on the board?" They answered their own question, finding that activist directors impose agency costs in the form of information leakage. Building on their work, we add another cost of activist directorships wherein they are accompanied by increased reports of stakeholder harm. While activist directors tend to enrich shareholders, they appear to impose a managerial myopia wherein companies become less concerned about investments in long-term viability. Moreover, the adverse effects on stakeholder harm are most profound when a director is a delegate, meaning they work directly for an activist investor, as opposed to a trustee, who is appointed by, but does not work for, an activist investor. We expect these findings could open the door to a new line of research that examines nuances of activist directorships and their consequences for organizational-level outcomes.

DATA AVAILABILITY STATEMENT

Data are available from publicly available sources.

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SUPPORTING INFORMATION

Additional supporting information can be found online in the Supporting Information section at the end of this article.

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