

# RESEARCH BRIEF

## Board Member Exit following Analyst Downgrades and Negative Media Coverage

Research has often focused on directors being forced to leave board appointments, but more recently researchers have begun exploring when directors voluntarily depart board appointments. Recent research published in the *Academy of Management Journal* suggests that directors leave their board appointments voluntarily as a means of reputation maintenance. To build this idea, the authors argued that negative media coverage and star analyst downgrades will motivate directors to leave their appointments to preserve their reputations, particularly those who are not the board chair and are longer-tenured.

### Key Takeaways:

- Negative media coverage and star analyst downgrades increase likelihood of directors exiting the board by 57% and 30%.
- Board chairs were 24% less likely to leave than non-board chairs following star analyst downgrades.
- Longer tenured directors were more likely to depart in the face of both negative media coverage (16%) and star analyst downgrades (36%).

The authors examined likelihood of exit for 10,118 directors across S&P1500 companies from 2003–2014 (52,552 director-firm-years). Exit was examined over 3 years to reflect whether the director stayed following their next election. The tenor of the company's media coverage was analyzed using computer algorithms of media articles, while star analyst downgrades were situations where companies moved from (strong) buy to hold or hold to (strong) sell by analysts named to

*Institutional Investor's* All America analyst team. The authors found that both negative media coverage and star analyst downgrades increased an individual director's exit. For negative media coverage, directors were 57% more likely to depart at high levels of negative media coverage compared to low levels. Fewer star analyst downgrades reduced director exit by 30% over situations where companies had more star analyst downgrades. The authors further found that higher status directors, such as those with an elite education or positions at an S&P500 company, were 4% more likely to leave at high levels of negative media coverage. Board chairs were also 24% less likely to depart than non-board chairs in the face of star analyst downgrades. Finally, longer tenured directors were more likely to exit following negative media coverage (16%) or star analyst downgrades (36%).

The authors conclude that directors seek to maintain their own reputations in the market for external directorships. In particular, directors consider how their association with companies that are negatively assessed by third party infomediaries might influence how others perceive them and make decisions on whether to continue their association with the company based on such information.

Source: Harrison, J.S., Boivie, S., Sharp, N.Y., & Gentry, R.J. (2018). Saving face: How exit in response to negative press and start analyst downgrades reflects reputation maintenance by directors. *Academy of Management Journal*, 61: 1131-1157.