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## ABSTRACT

“There is mounting evidence of the influence of personal characteristics of chief executive officers (CEOs) on corporate outcomes. In this paper we analyze the relation between military service of CEOs and managerial decisions, financial policies, and corporate outcomes. Exploiting exogenous variation in the propensity to serve in the military, we show that military service is associated with conservative corporate policies and ethical behavior. Military CEOs pursue lower corporate investment, are less likely to be involved in corporate fraudulent activity, and perform better during industry downturns. Taken together, our results show that military service has significant explanatory power for managerial decisions and firm outcomes.”

## RESEARCH HIGHLIGHTS

- Previous researchers have found that military service is associated with several skills that promote effective organizational leadership and management. Some of the skills found include experience working in a team environment, calmness under pressure, and organizational skills, such as good communication skills and the effective use of resources. Using the Forbes 800 surveys from 1980-1991 and the Execucomp surveys from 1992-2006, the authors examined the effects military service characteristics have on firm performance.
- The authors found that firms run by CEOs who have served in the military have lower investment and Research and Development (R&D) expenditures. These firms also pursue slightly lower leverage ratios, than nonmilitary CEOs, but are less likely to engage in fraudulent activity and perform better in crisis situations.
- Despite the significant benefits military CEOs offer firms, the percentage of CEOs with military experience has dropped from 59% in 1980 to 6.2% in 2006. Additional research is needed on the decline of CEOs with military experience.

## IMPLICATIONS

### FOR PRACTICE

Firms and organizations should consider hiring chief executive officers (CEOs) with military experience if they are looking for “change agents” who will create an ethical, effective, and team-oriented organizational culture. Firms should be aware that military CEOs can be advantageous for the organization, especially since they are likely to reduce expenditures on investment and research and development (R&D) while also increasing service delivery capacity. Hiring military CEOs could also be very advantageous for firms and Boards of Directors who wish to combat fraud, corruption, and unethical corporate behavior within the firm. Graduate schools of business should create courses for students to learn and experience how to create and implement ethical business practices within an organization or firm. Veterans currently working in entrepreneurship, finance, or for corporations should consider taking advantage of their unique leadership and team management skills within their organization by attempting to move from middle management to top-level executive positions.

### FOR POLICY

The Transition Assistance Program (TAP) is useful for service members deciding to enter into the civilian workforce, especially with companies and corporations. The Department of Defense (DoD), Department of Labor (DoL), and the Department of Veterans Affairs (VA) might partner to ensure that material on business leadership, human resource management in the civilian sector, and business ethics are integrated into program offerings, including TAP. The DoD, DoL, and the VA might continue researching ways to help veterans succeed in the civilian workforce. Since private companies, like General Electric and Deloitte, and organizations, such as VeteransCorp, currently offer leadership and employment programs for veterans and service members (JOLP, CORE, and VetToCEO, respectively), the VA and DoL could consider collaborating with such groups to expand access and resources for these types of business leadership programs to veterans. Finally, the VA should consider engaging with community collaborative networks across the country on veteran employment in order to increase the access of veterans to private companies and the civilian labor market.

### FOR FUTURE RESEARCH

This study has several strengths, including its ability to link military CEO leadership to different firm outcomes, particularly investment, R&D, leverage, and profitability. A limitation of this study is that the dataset of military CEOs does not include data on “unobserved firm characteristics” outside of firm leadership. The authors noted that while there might be relationships between military CEO leadership and various firm performance metrics, these aren’t causal relationships. Future research is needed to examine the relationship between military CEO leadership and various firm performance metrics. Another limitation of this study is that the dataset used only included the 1,500 largest publically-traded U.S. companies. If the dataset used in the study had included smaller companies, including private companies, there is a possibility that the results might have differed. Future studies should use a dataset that includes a range of firm sizes. Further research should be conducted on measuring the effects of military CEO leadership on a wide range of firms in different markets.

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