Economics Bulletin

Volume 42, Issue 3

Are former military personnel valuable to shareholders? Evidence from boards of directors

Etienne Redor
Audencia Business School

Magnus Blomkvist
Edhec Business School

Abstract

In recent years, many large US companies have appointed ex-military personnel to their boards of directors. While such personnel may have developed core competencies that are fundamental in the corporate world (Simpson and Sariol, 2019), they could also lack business experience and knowledge (An et al., 2020). The aim of this paper is to take a position in this debate by analyzing shareholders' points of view. Firstly, we studied the market's reaction to the announcement of an ex-military director appointment but failed to observe any significant reactions. Secondly, we analyzed the outcomes of director elections and showed that ex-military directors would receive significantly more "for" votes than other directors. We therefore concluded that shareholders do value ex-military directors.

Citation: Etienne Redor and Magnus Blomkvist, (2022) "Are former military personnel valuable to shareholders? Evidence from boards of directors", *Economics Bulletin*, Volume 42, Issue 3, pages 1314-1330
Contact: Etienne Redor - eredor@audencia.com, Magnus Blomkvist - magnus.blomkvist@edhec.edu.
Submitted: September 24, 2021. **Published:** September 30, 2022.

1. Introduction

Service in the military is considered by many to be a life-changing experience that shapes an individual's personality and instills specific values (Koch-Bayram and Wernicke, 2018). Benmelech and Frydman (2015) point out that the sociology and organizational behavior literature suggests that service in the military allows individuals to acquire leadership experience that is difficult to acquire elsewhere. For instance, it is common for military officers to manage large teams and multi-million-dollar budgets very early in their careers (Duffy, 2006). Similarly, their battlefield experience enables them to make decisions under high-pressure. Consequently, former military personnel may have developed core competencies that are fundamental in the corporate world. That is the reason why firms as diverse as Wal-Mart, Merck, Bank of America, Pepsi-Cola, and General Electric have launched programs to train ex-military personnel for management and leadership positions (O'Keefe, 2010).

According to upper echelons theory (Hambrick and Mason, 1984), the experiences, values, and personalities of strategic leaders can affect organizational outcomes and firms' strategic choices and performance levels. Whether personality influences one's choice to enter the military or if it is because military service influences one's personality, military personnel may have characteristic personality traits (Jackson et al. 2012). Thus, in view of the character traits generally associated with military personnel, and their specific knowledge and experience, it is likely that ex-military executives make corporate decisions that differ from those of their non-military counterparts (Koch-Bayram and Wernicke, 2018). Thus, Benmelech and Frydman (2015) and Law and Mills (2017) show that US firms run by ex-military CEOs have more conservative corporate policies, whereas Malmandier et al. (2011), focusing on CEOs who were World War II veterans, find the opposite. Moreover, prior literature establishes that firms run by ex-military executives are less likely to be involved in fraudulent corporate activity (Benmelech and Frydman, 2015) and stock options backdating (Koch-Bayram and Wernicke, 2018), offer fewer corporate donations (Luo et al., 2017), engage less in tax avoidance (Law and Mills, 2017), are more likely to engage in CSR activities and less likely to engage in aggressive earnings management (Xie and Hao, 2017), and have lower environmental information disclosure (Chen et al., 2021). However, these results could vary across countries, given the international differences in culture, education, and ethical behaviors of managers (Kim et al., 2017; Lin et al., 2020). Finally, another part of the literature focuses on the impact of ex-military CEOs on firm performance without succeeding in obtaining clear-cut results. While Duffy (2006) shows that S&P 500 firms led by ex-military CEOs would outperform other S&P 500 firms over one, three, five, and ten-year horizons, Benmelech and Frydman (2015) fail to document any relation between military service and return on assets or Tobin's Q, but show that CEOs with military experience perform better during industry downturns (see also Lin et al., 2020).

While the impact of the presence of military CEOs on firms' strategic choices and performance levels is beginning to be well documented, studies on the impact of military directors are lacking (Kim et al., 2017, Simpson and Sariol, 2019). To the best of our knowledge, we only find a few studies dealing with the impact of the presence of ex-military personnel on boards. Kim et al. (2017), using a South Korean sample, extended the results of Benmelech and Frydman (2015) and show that ex-military inside directors also tend to opt for more cautious policies and are less likely to commit corporate fraud. Cai et al. (2021) find that military directors improve governance through their monitoring role. An et al. (2020) report that due to a lack of business knowledge, there is a negative correlation between the proportion of military directors and Tobin's Q.

One aim of this article is to extend the findings of previous studies by analyzing whether shareholders value the presence of ex-military personnel on their boards of directors. It is difficult to make empirical predictions concerning this question, since, on the one hand, military personnel are expected to be good at working in teams, making decisions under pressure, and defining a goal and motivating others to follow it. They are also expected to possess good communication and organization skills and a highly developed sense of ethics (Duffy, 2006) and loyalty. On the other hand, they are expected to be more aggressive, overconfident, and subject to risk-taking (Elder, 1986; Elder and Clipp, 1989; Elder et al., 1991) and lack of business experience and knowledge (An et al., 2020). Furthermore, also the rank of the military could matter through their political connections, several studies show a positive link between political connections and firm value (Brown and Huang, 2020; Goldman et al., 2009). Ferris et al. (2016) find a positive link between general/admiral board representations on regulatory approval in M&A.

To assess whether ex-military personnel are valuable to shareholders, we use two different approaches. First, if former military staff are really valuable to them, the announcement of the appointment of a military director to a given board of directors should have a positive impact on the stock price of the company. To test this hypothesis, we used the event study methodology on a sample of 117 ex-military director appointments by S&P 500 firms between 2010 and 2016 for different event windows, but we fail to document any consistent market reaction patterns, regardless of which branch they had served in (i.e., Navy, Air Force, Army or Marines) or the rank they had achieved (i.e., General/Admiral or lower). Analyzing the valuation impact of director appointments are not new to the literature. For example, prior studies report significant CARs around: CEO independent directors appointments [CAR=0.7%; Fich (2005)]; voluntary independent appointments [CAR=0.23%; Wang and Lee (2012)]; financial expert audit committee appointments [CAR=2.3%; Davidson III et al. (2004)]; appointment of directors with industry experience [CAR=0.32%; Von Meyerinck et al. (2016)]; appointment of politically connected directors [CAR=2.80%; Goldman et al. (2009)]; and appointment of award winning directors [CAR=0.35%; Gogolin et al., (2018)]; appointment of celebrities [CAR=0.32%; Ferris et al., (2011)]. However, we are the first study to our knowledge to document the CARs around military appointments.

Second, we are the first study to analyze military directors elections, if former military personnel are really valuable to shareholders, they should receive more "for" votes. We therefore analyze the election results of 141 ex-military directors during 524 elections over the 2010–2016 period and show that they received significantly more "for" votes than non-ex-military directors. The results were different depending on the military branch and on the military rank.

The remainder of the paper is organized as follows: Section 2 describes our data and methodology, Section 3 shows the results, and Section 4 provides our conclusions.

2. Data and methodology

2.1. Event study methodology

This study is based on an examination of the board composition of S&P 500 companies between 2010 and 2016. A systematic review of the annual reports available on the SEC website[1] makes it possible to reconstruct the composition of boards of directors for each year (in total, the

[1] www.sec.gov.

composition of over 3,500 boards of directors is included in the study). In particular, careful reading of the directors' profiles allows us to identify the presence of 141 military directors over the sample period.

To obtain the exact date of appointment of an ex-military director, we use Form 8-K records. Indeed, public companies must file a Form 8-K, or current report, with the SEC generally within four days of any event that could materially affect a company's financial position or the value of its shares. These records have been archived on the SEC website since January 2005. Thus, it is not possible to retrieve the announcement date for directors who were appointed before January 2005. Similarly, we further exclude multiple appointments (when two ex-military directors were appointed on the same date) because of the empirical impossibility of isolating the impact of the individual directors. Our final sample consisted of 117 ex-military director appointments. We then divided this sample into sub-samples according to army branch (i.e., Air Force, Navy, Army or Marine Corps) and the rank reached by the soldier (i.e., General or non-General). Indeed, since there is not just one kind of veteran, those from different branches and ranks could demonstrate different competencies (Groysberg et al., 2010). The composition of the subsamples is described in Figure 1.

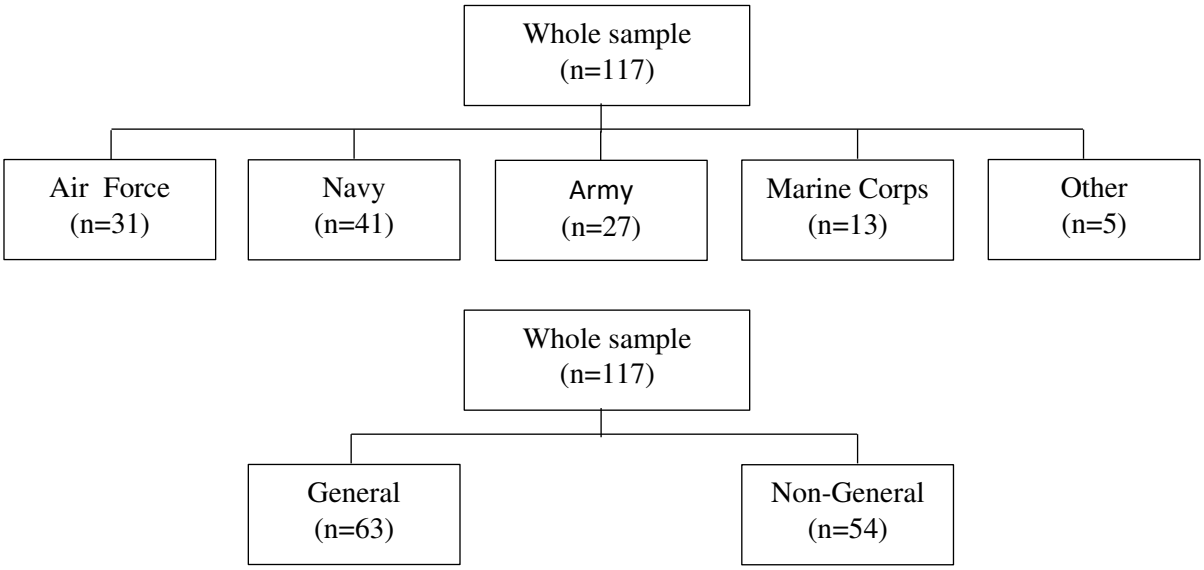

Figure 1: Composition of the subsamples according to the army branches and rank reached by the soldier.

The market reaction to the announcement of the appointment of an ex-military director is calculated using the standard financial event study method. The valuation effect of firm *i* on day *t* is measured by the abnormal returns, $AR_{i,t}$, calculated as the actual returns $R_{i,t}$ minus expected returns $E(R_{i,t})$:

$$AR_{i,t} = R_{i,t} - E(R_{i,t})$$

Expected returns are calculated according to the market model (including a market factor) and a Fama-French three factor model (including additional HML and SMB factors), a 100 day estimation window (-151, -51), and a 21 day event window (-10, 10), with 0 representing the event day. Then, average abnormal returns were calculated as follows (with N the size of the sample):

$$AAR_t = \frac{1}{N}\sum_{i=1}^{N} AR_{i,t}$$

Finally, to calculate the cumulative average abnormal returns, we sum the average abnormal returns across days (with T_1 et T_2 the actual days in the event period):

$$CAAR_{(T_1,T_2)} = \sum_{t=T_1}^{T_2} AAR_t$$

2.2. Director election outcomes

The second step in our methodological approach is to study the outcomes of director elections at S&P 500 companies between 2010 and 2016. In accordance with Chen and Guy (2020), Field et al. (2020) and Redor and Blomkvist (2021), we measure shareholder support at the director level, by demeaning the voting outcome per firm-year. If certain directors' characteristics are valuable to shareholders, directors with that characteristic should receive more "for" votes than directors without it. In this case, if military experience is perceived as beneficial (detrimental) by the shareholders, ex-military directors should receive more (less) "for" votes than non-ex-military directors.

Table 1: Variable definitions

Variables	*Definitions*
Dependent variables	
Excess % of "for" votes	Director's percentage of "for" votes minus the company's average percentage of "for" votes.
Independent variables	
Military	Dummy variable that equals 1 if the director is an ex-military director, and 0 otherwise.
Air Force	Dummy variable that equals 1 if the director is an Air Force soldier, and 0 otherwise.
Navy	Dummy variable that equals 1 if the director is a Navy soldier, and 0 otherwise.
Army	Dummy variable that equals 1 if the director is an Army soldier, and 0 otherwise.
Marine Corps	Dummy variable that equals 1 if the director is a Marine Corps soldier, and 0 otherwise.
General	Dummy variable that equals 1 if the director is a General or an Admiral, and 0 otherwise.
Non-General	Dummy variable that equals 1 if the director is a soldier with a rank lower than General or Admiral, and 0 otherwise.
Director-level control variables	
Outside directors	Dummy variable that equals 1 if the director is an outside director, and 0 otherwise.
Director ownership	Number of shares that the director holds divided by the number of shares outstanding.
Gender	Dummy variable that equals 1 if the director is a woman, and 0 otherwise.
Ln (Age)	The natural logarithm of the board member's age.
Ln (1+Director tenure)	The natural logarithm of 1 plus the number of years that the director has served on the board.

Board attendance	Dummy variable that equals 1 if the director attended less than 75% of board meetings during the previous year, and 0 otherwise.
Director busyness	Number of other outside public board seats that a director holds.
Firm-level control variables	
Main shareholder	Percentage of shares held by the main shareholder.
Ln (Firm size)	Natural logarithm of the firm's market capitalization.
Classified board	Dummy variable that equals 1 if the board is classified, and 0 otherwise.
Majority voting	Dummy variable that equals 1 if the firm uses the majority system to elect directors, and 0 otherwise.

The dependent variable is the excess percentage of "for" votes for a director, defined as the director's percentage of "for" votes minus the company's average percentage of "for" votes in a given year for a given company (a definition of the variables used in this study can be found in Table 1). We use excess percentage of "for" votes for a director instead of the raw percentage of "for" votes, because it allows for concerns about omitted firm-level characteristics to be mitigated. Forms 8-K records were also used to collect the director elections outcomes. Indeed, on these forms, Item 5.07 ("Submission of matters to a vote of security holders") specifies the number of "for," "against," and "abstained" votes for each director election. This allows us to collect the results of 28,627 director elections. The advantage of our variable is that it captures within-firm-differences, which allows us to fully account for confounding factors related to firm characteristics and performance.

The main independent variable is military. Of all the director elections studied, 524 were for ex-military directors. We then define more precise variables to take into account the military branches (Air Force, Navy, Army or Marine Corps) and the rank reached by the soldier (General or non-General).

We further include two types of control variables: director-level control variables and firm-level control variables. Cai et al. (2009) argue that certain characteristics of directors, such as independence, ownership, gender, age, attendance, tenure, and busyness, could have an impact on the outcome of director elections. We therefore include these variables as control variables in our regressions. Finally, we control for the firm's ownership structure, size, and voting system (classified board and majority voting).

The final sample consists of 28,512 director elections between 2010 and 2016 during 3,193 different shareholder meetings at 488 firms. In addition to describing the variables, Table 2 also shows the variance inflation factors of the variables used in the empirical analysis. Table 3 shows the correlation matrix of the variables used in the empirical analysis. Overall, the correlation between our variables is rather weak. Moreover, the computed VIFs are far below 10, suggesting that our multivariate analyses are not at risk of any multicollinearity issues.

Table 2: Summary statistics

This table shows summary statistics and variance inflation factors for the variables included in this study.

Variables	Obs.	Min.	Max.	Mean	Std. Dev.	VIF
Excess % of "for" votes	28,512	-0.535	0.318	0.000	0.037	1.087
Military	28,512	0.000	1.000	0.018	0.134	1.011
Navy	28,512	0.000	1.000	0.007	0.081	1.414
Air Force	28,512	0.000	1.000	0.005	0.072	1.396
Army	28,512	0.000	1.000	0.004	0.060	1.193
Marine Corps	28,512	0.000	1.000	0.002	0.045	1.084
General	28,512	0.000	1.000	0.009	0.096	2.065
Non-General	28,512	0.000	1.000	0.008	0.092	1.953
Outside directors	28,512	0.000	1.000	0.841	0.366	1.171
Director ownership	28,512	0.000	0.889	0.003	0.025	1.099
Gender	28,512	0.000	1.000	0.188	0.391	1.066
Ln (Age)	28,512	3.332	4.554	4.118	0.130	1.393
Board attendance	28,512	0.000	1.000	0.003	0.058	1.039
Ln (1+Director tenure)	28,512	0.000	4.078	1.949	0.830	1.322
Director busyness	28,512	0.000	6.000	0.971	1.054	1.077
Main shareholder	28,512	0.030	0.922	0.112	0.098	1.118
Ln (Firm size)	28,512	4.572	13.366	9.852	1.066	1.128
Classified board	28,512	0.000	1.000	0.122	0.327	1.080
Majority voting	28,512	0.000	1.000	0.781	0.414	1.130

Table 3: Correlation matrix

This table shows the pairwise correlations between the variables included in this study.

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)
Excess % of "for" votes (1)	**1**	0.03	0.01	0.01	0.01	0.03	0.01	-0.02	0.02	-0.08	-0.18	-0.15	-0.13	0.00	0.00	0.00	0.00
Navy (2)	0.03	**1**	-0.01	-0.01	0.00	0.44	0.02	-0.01	-0.04	0.03	-0.01	-0.02	0.00	0.01	0.02	0.00	0.01
Air Force (3)	0.01	-0.01	**1**	0.00	0.00	0.43	0.01	-0.01	-0.02	0.04	0.00	-0.02	0.04	-0.01	0.01	0.00	0.01
Army (4)	0.01	-0.01	0.00	**1**	0.00	0.30	0.02	-0.01	-0.02	0.03	0.00	-0.02	-0.01	-0.01	-0.02	0.02	-0.02
Marine Corps (5)	0.01	0.00	0.00	0.00	**1**	0.20	-0.01	0.00	-0.02	0.03	0.00	0.00	0.00	-0.01	0.00	0.00	-0.01
General (6)	0.03	0.44	0.43	0.30	0.20	**1**	0.04	-0.01	-0.03	0.06	-0.01	-0.03	0.02	0.01	0.01	0.00	0.01
Outside D. (7)	0.01	0.02	0.01	0.02	-0.01	0.04	**1**	-0.22	0.15	0.17	0.00	-0.14	0.15	-0.13	0.03	-0.01	0.05
D. ownersh. (8)	-0.02	-0.01	-0.01	-0.01	0.00	-0.01	-0.22	**1**	-0.03	-0.01	0.03	0.19	-0.07	0.18	-0.02	-0.01	-0.06
Gender (9)	0.02	-0.04	-0.02	-0.02	-0.02	-0.03	0.15	-0.03	**1**	-0.14	0.00	-0.08	0.05	-0.03	0.04	-0.02	0.04
Ln (age) (10)	-0.08	0.03	0.04	0.03	0.03	0.06	0.17	-0.01	-0.14	**1**	0.00	0.35	0.09	-0.03	0.03	-0.01	0.01
B. attend. (11)	-0.18	-0.01	0.00	0.00	0.00	-0.01	0.00	0.03	0.00	0.00	**1**	-0.01	0.00	0.02	0.00	0.01	-0.03
Ln (1+D. tenure) (12)	-0.15	-0.02	-0.02	-0.02	0.00	-0.03	-0.14	0.19	-0.08	0.35	-0.01	**1**	-0.04	-0.02	-0.03	0.01	-0.02
D. busy. (13)	-0.13	0.00	0.04	-0.01	0.00	0.02	0.15	-0.07	0.05	0.09	0.00	-0.04	**1**	-0.02	0.09	-0.01	0.05
Main Sh. (14)	0.00	0.01	-0.01	-0.01	-0.01	0.01	-0.13	0.18	-0.03	-0.03	0.02	-0.02	-0.02	**1**	-0.08	-0.01	-0.20
Ln Firm size (15)	0.00	0.02	0.01	-0.02	0.00	0.01	0.03	-0.02	0.04	0.03	0.00	-0.03	0.09	-0.08	**1**	-0.18	0.16
Classif. b. (16)	0.00	0.00	0.00	0.02	0.00	0.00	-0.01	-0.01	-0.02	-0.01	0.01	0.01	-0.01	-0.01	-0.18	**1**	-0.14
Maj. vot. (17)	0.00	0.01	0.01	-0.02	-0.01	0.01	0.05	-0.06	0.04	0.01	-0.03	-0.02	0.05	-0.20	0.16	-0.14	**1**

3. Results

3.1. Event study

The event study results in Table 4 show that the announcement of the appointment of an ex-military director has very little impact on a firm's stock price, regardless of the event window. For most of the event windows, we do not observe any statistically significant results for the main variable; with one exception, the 21-day event window in the Fama-French 3 factor estimations, for which the military impact is positive and significant at the 10% level. This result is not in line with Ferris et al. (2011), who document a statistically positive market reaction to the announcement of the appointment of celebrities (including ex-military personnel) to a corporate board for different event windows. Similarly, the analysis of the subsamples does not show any consistent significant market reaction according to military branch or rank reached by the soldier. There are also no significant differences in market reactions between former generals/admirals and other ex-military directors. Therefore, this approach does not lead to the conclusion that ex-military directors are valuable to shareholders.

Table 4: Cumulative abnormal returns around appointments

Results of the event study for the overall sample and different sub-samples. ***, **, * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

Return model	Event Window	All	Air Force	Navy	Army	Marine Corps	Other	General	Non-General
Market Model	(-1,1)	-0.002	0.003	-0.004	-0.004	0.002	-0.013	-0.001	-0.002
		(-0.56)	(0.52)	(-0.74)	(-0.47)	(0.54)	(-0.75)	(-0.35)	(-0.44)
Market Model	(-5,5)	0.003	0.002	0.000	0.009	0.011	-0.028	0.003	0.003
		(0.54)	(0.25)	(0.04)	(0.97)	(1.47)	(-1.37)	(0.37)	(0.40)
Market Model	(-10,10)	0.015	0.009	0.020	0.020	0.025*	-0.052	0.004	0.027
		(1.58)	(0.79)	(1.03)	(0.89)	(1.98)	(-1.58)	(0.45)	(1.57)
FF-3	(-1,1)	-0.001	0.002	-0.003	-0.003	0.003	-0.006	-0.002	0.000
		(-0.36)	(0.41)	(-0.65)	(-0.39)	(0.75)	(-0.42)	(-0.60)	(0.08)
FF-3	(-5,5)	0.003	0.005	-0.003	0.008	0.014	-0.010	0.004	0.003
		(0.65)	(0.73)	(-0.26)	(0.78)	(1.48)	(-0.70)	(0.51)	(0.39)
FF-3	(-10,10)	0.019**	0.021*	0.015	0.027	0.027*	-0.031	0.005	0.035**
		(2.07)	(1.95)	(0.82)	(1.13)	(2.23)	(-1.02)	(0.64)	(2.03)
N		117	31	41	27	13	5	63	54

Although the event study methodology is classical in the literature to assess the value of a director's characteristics for shareholders such as gender (Farrell and Hersch, 2005; Campbell and Minguez-Vera, 2010) or independence (Rosenstein and Wyatt, 1990), it has been criticized by some authors (Adams et al., 2011; Redor, 2015). Indeed, appointments of directors often take place during the annual general meeting and the announcement of these appointments are generally made in proxy statements. Since a great deal of information is disclosed in these proxy statements, the results of the event studies analyzing the impact of director appointments are questionable, since it is very difficult to isolate the information related to the appointment from all the other information. An approach based on shareholders' perceptions of military directors' performance could therefore provide valuable insights.

3.2. Director elections

The analysis of directors' election outcomes provides different results. When regressing the excess percentage of "for" votes against our Military variable and the control variables, Military has a significantly positive impact at the 1% level, indicating that ex-military directors receive significantly more "for" votes than the other directors (see Regression (1) of Table 5), and thus, shareholders do value the presence of military directors on their boards. The coefficient estimates reveal that military directors have 0.73% more for votes relative to the average director within the firm. The economic magnitude is large, since the standard deviation of excess percentage of "for" votes is only 0.037. Hence, military directors receive roughly 0.2 standard deviation more "for" votes relative to the average candidate.

However, as suggested by Groysberg et al. (2010), a soldier may have developed different skills depending on his or her career in the military. The value of an ex-military director to a shareholder could thus depend on his or her military branch and rank. Interestingly, when the sample is split according to military branch (Regression (2) of Table 5), differences can be observed: While former Air Force and Navy soldiers received significantly more "for" votes (at the 10% level and the 1% level, respectively), former Army and Marine Corps soldiers did not, which would suggest that shareholders do care about the military branch of an ex-military director. The coefficient estimates show that navy directors are the most popular at the annual general meeting, receiving 1.01% more "for" votes compared to the average director within the firm. Similarly, the third regression of Table 5 underlines the importance of the rank reached by the soldier to explain director election outcomes. While former Generals and Admirals receive significantly more "for" votes at the 1% level, ex-soldiers of a lower rank did not. Thus, not all ex-military directors are valuable to shareholders: Only those who have reached the highest ranks (General or Admiral, β=0.0063) seem to be valuable to them. Our findings suggest that military appointments matter to shareholders, and especially those of higher ranked military. This could either be due to that rank correlates with ability and that it provides greater political connections. Among the control variables in all specifications, gender and firm size have a positive and significant impact on the excess "for" votes, while director tenure, busyness and attendance enter with negative signs.

3.3. Propensity score matching

In the next set of tests, we aim to ensure that our findings are not driven by endogeneity. We match military directors with non-military directors based on propensity scores. The directors are matched on several dimensions that can affect the percentage of excess "for" votes such as education (having a MSc, PhD, MBA or Law degree), CEO experience, Director Tenure, Gender, Age and Busyness.

Our findings in column (1) of Table 6 show that military experience remains statistically significant when using a matched sample. However, the military coefficient estimate drops from 0.0073 to 0.0066 after using propensity score matching. When differentiating between the different military branches in column (2) only experience from the Navy remains positive and statistically significant compared to the regressions in Table 5. However, when using a matched sample Marine Corps experience becomes significant at the 10% level. One possible explanation for this result is that marines have different observable characteristics compared to the rest of the sample. The prior findings on having experience as a general remains significant when using a matched sample.

Table 5: Military directors and shareholder satisfaction

This table shows regressions on Excess % of "for" Votes. All variables are defined in Table 1. Reported t-stats in parentheses are heteroscedasticity robust and double clustered on industry (FF-49) and year. ***, **,* denote 1%, 5%, 10% significance, respectively.

	(1)	(2)	(3)
	Excess % of "for" votes		
Military	0.0073***		
	(4.159)		
Air Force		0.0062*	
		(2.437)	
Navy		0.0101***	
		(4.108)	
Army		0.0030	
		(0.650)	
Marine Corps		0.0072	
		(1.633)	
General			0.0063***
			(3.943)
Non-General			0.0037
			(1.444)
Outside Directors	0.0018	0.0018	0.0018
	(0.775)	(0.777)	(0.775)
Director Ownership	0.0030	0.0030	0.0030
	(0.099)	(0.100)	(0.097)
Gender	0.0015*	0.0015*	0.0014*
	(2.092)	(2.103)	(1.975)
ln(Age)	0.0015	0.0016	0.0020
	(0.478)	(0.490)	(0.612)
ln(1+Director Tenure)	-0.0074***	-0.0074***	-0.0074***
	(-11.942)	(-11.931)	(-11.887)
Board Attendance	-0.1194***	-0.1194***	-0.1195***
	(-9.368)	(-9.355)	(-9.406)
Director Busyness	-0.0049***	-0.0048***	-0.0048***
	(-9.867)	(-9.812)	(-9.842)
Main Shareholder	-0.0008	-0.0009	-0.0008
	(-0.359)	(-0.397)	(-0.389)
Ln (Firm Size)	0.0003*	0.0003*	0.0003*
	(2.283)	(2.161)	(2.283)
Classified Board	0.0000	0.0000	0.0000
	(0.033)	(0.037)	(0.061)
Majority Voting	-0.0001	-0.0001	-0.0002
	(-0.509)	(-0.561)	(-0.666)
Constant	0.0081	0.0080	0.0064
	(0.721)	(0.707)	(0.557)
Observations	28,566	28,566	28,566
R-squared	0.080	0.080	0.079
Industry FE	Y	Y	Y
Year FE	Y	Y	Y

Table 6: Propensity score matching

This table shows regressions using a propensity score matched. The dependent variables is Excess % of "for" Votes. Reported t-stats in parentheses are heteroscedasticity robust and double clustered on industry (FF-49) and year. ***, **,* denote 1%, 5%, 10% significance, respectively.

	(1)	(2)	(3)
	Excess % of "for" votes		
Military	0.0066**		
	(2.608)		
Air Force		0.0039	
		(1.442)	
Navy		0.0097***	
		(3.923)	
Army		0.0042	
		(0.947)	
Marine Corps		0.0102*	
		(1.962)	
General			0.0042*
			(2.301)
Non-General			0.0029
			(0.947)
Outside Directors	0.0169**	0.0170**	0.0163*
	(2.544)	(2.575)	(2.373)
Director Ownership	0.2639**	0.2647**	0.2488**
	(2.793)	(2.995)	(2.676)
Gender	0.0040	0.0051	0.0039
	(1.265)	(1.728)	(1.311)
ln(Age)	-0.0146	-0.0128	-0.0172
	(-0.865)	(-0.796)	(-1.060)
ln(1+Director Tenure)	-0.0047*	-0.0049**	-0.0045*
	(-2.344)	(-2.566)	(-2.340)
Board Attendance	-0.2995***	-0.2985***	-0.3003***
	(-28.466)	(-27.952)	(-30.621)
Director Busyness	-0.0033**	-0.0030*	-0.0032**
	(-2.846)	(-2.383)	(-2.658)
Main Shareholder	0.0268*	0.0240*	0.0281*
	(2.093)	(1.994)	(2.107)
Ln (Firm Size)	0.0003	0.0001	0.0002
	(0.219)	(0.062)	(0.122)
Classified Board	-0.0014	-0.0015	-0.0016
	(-0.442)	(-0.470)	(-0.473)
Majority Voting	0.0039	0.0039	0.0038
	(1.482)	(1.445)	(1.383)
Constant	0.0495	0.0442	0.0648
	(0.764)	(0.729)	(1.048)
Observations	1,045	1,045	1,045
R-squared	0.178	0.182	0.171
Industry FE	Y	Y	Y
Year FE	Y	Y	Y

3.4. Further analysis

Next, we examine in which situations military directors have more positive voting outcomes. We study two specific cases: strong boards and first time appointments ("Rookie"). We follow Mollah et al. (2021) and define a strong board as below median board size and having above median proportion of independent directors. We define "Rookie" as the first time a director joins a board in our sample and holds no other public board positions.

Table 7: Strong boards and first time elections

This table shows regressions on Excess % of "for" Votes. We split the sample based on if the firm has a strong board or not. Strong board is defined as having below median board size and above median proportion of independent directors. Columns (1) to (3) show analysis on boards not characterized as strong and column (4) to (6) for strong boards. Column (7) analyzes rookie elections in isolation. All variables are presented in Table 1. Reported t-stats in parentheses are heteroscedasticity robust and double clustered on industry (FF-49) and year. ***, **,* denote 1%, 5%, 10% significance, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Other Boards			Strong Boards			"Rookies"
	Excess % of "for" votes						
Military	0.0081***			0.0017			0.0162*
	(4.509)			(0.388)			(1.791)
Air Force		0.0069**			0.0004		
		(2.544)			(0.102)		
Navy		0.0110***			0.0043		
		(4.042)			(0.656)		
Army		0.0033			0.0003		
		(0.676)			(0.116)		
Marine Corps		0.0086			0.0004		
		(1.530)			(0.088)		
General			0.0085**			-0.0059	
			(3.626)			(-0.673)	
Non-General			0.0051			-0.0049	
			(1.659)			(-0.634)	
Constant	0.0153	0.0152	0.0136	-0.0377*	-0.0377*	-0.0386*	
	(0.963)	(0.951)	(0.835)	(-2.123)	(-2.193)	(-2.244)	
Observations	24,540	24,540	24,540	4,026	4,026	4,026	631
R-squared	0.070	0.070	0.069	0.158	0.158	0.158	0.171
Controls	Y	Y	Y	Y	Y	Y	Y
Industry FE	Y	Y	Y	Y	Y	Y	Y
Year FE	Y	Y	Y	Y	Y	Y	Y

In columns (1) to (3) of Table 7, we replicate the analysis from Table 5 on the subsample of directors in firms that do not have a strong board. The findings are in line with our prior results: Military, Air Force, Navy and General appointments gain greater shareholder support. The coefficient estimate of military increases from 0.0073 in the baseline specification to 0.0081 among firms with non-strong boards. In columns (4) to (6), we study strong boards in isolation and do not find that military appointments are associated with greater shareholder support. Our findings are not surprising, since it is plausible that having military on the board of directors

adds an extra layer of monitoring. As previous literature argues, military directors are associated with better monitoring and less fraudulent corporate behavior (Cai et al., 2021).

In column (7) of Table 7, we analyze 631 "rookie" director elections. Our findings suggest that military rookie appointments have greater shareholder support compared to non-military rookie directors. One potential channel that could explain our findings is the monitoring ability (Cai et al., 2021) and the resulting fraud prevention. For example, Bai and Yu, (2022) report that rookie directors are associated with more fraudulent corporate behavior.

4. Conclusion

Directors play a key role in corporate governance: They are supposed to advise and monitor management on behalf of shareholders. To achieve these goals, directors must have developed skills and had experience that are relevant to the firm. Previous literature points out that military personnel may have developed skills early in their career that are difficult to acquire elsewhere and could be valuable in the business world (e.g., decision-making under pressure or management of large teams and budgets). On the contrary, some characteristics generally attributed to ex-military personnel (such as overconfidence, aggressiveness, or lack of business experience and knowledge) could impair their effectiveness as directors.

The aim of this study is to analyze whether shareholders value military experience in directors. While we were not able to document any significant market reaction to the announcement of a former military appointment to a corporate board, we have shown that ex-military directors do receive significantly more "for" votes than their non-military counterparts. This result is consistent with the idea according to which shareholders value the presence of ex-military directors on boards.

References

Adams, R.B., Gray S., and Nowland J. (2011) "Does gender matter in the boardroom? Evidence from the market reaction to mandatory new director announcements", *SSRN working paper*.

An, J., Duan, T., Hou, W. and Liu, X. (2020) "The legacy of wars around the world: Evidence from military directors", *Journal of International Financial Markets, Institutions and Money* **64**, 101172.

Bai, M., and, Yu, C. F. J. (2022) "Rookie directors and corporate fraud." *Review of Corporate Finance*, forthcoming.

Benmelech, E. and Frydman, C. (2015) "Military CEOs", *Journal of Financial Economics* **117**, 43-59.

Brown, J. R. and Huang, J. (2020) "All the president's friends: Political access and firm value." *Journal of Financial Economics* **138**, 415-431.

Cai, J. Garner, J.L. and Walking, R.A. (2009) "Electing directors", *Journal of Finance* **64**, 2389-2421.

Cai, C., Hasan, I., Shen, Y. and Wang, S. (2021) "Military directors, governance and firm behavior", *Advances in Accounting* **55**, 100563.

Campbell, K. and Minguez-Vera, A. (2010) "Female board appointments and firm valuation: Short and long-term effects", *Journal of Management and Governance* **14**, 37-59.

Chen, H., An, M., Wang, Q., Ruan, W. and Xiang, E. (2021) "Military executives and corporate environmental information disclosure: Evidence from China", *Journal of Cleaner Production*¸ 123404.

Chen, K.D. and Guay, W.R. (2020) "Busy directors and shareholder satisfaction", *Journal of Financial and Quantitative Analysis* **55**, 2181-2210.

Davidson III, W. N., Xie, B., and Xu, W. (2004) "Market reaction to voluntary announcements of audit committee appointments: The effect of financial expertise", *Journal of Accounting and Public Policy* **23**, 279-293.

Duffy, T. (2006) "Military experience and CEOs: is there a link?", Korn/Ferry International Report.

Elder, G.H. (1986) "Military times and turning points in men's lives", *Developmental Psychology* **22**, 233-245.

Elder, G.H. and Clipp, E.C. (1989) "Combat experience and emotional health: Impairment and resilience in later life", *Journal of Personality* **57**, 311-341.

Elder, G.H., Gimbel, C. and Ivie, R. (1991) "Turning point in life: The case of military service and war", *Military Psychology* **3**, 215-231.

Farrell, K.A. and Hersch, P.L. (2005) "Additions to corporate boards: The effect of gender", *Journal of Corporate Finance* **11**, 85-106.

Ferris, S. P., Houston, R., and Javakhadze, D. (2016) "Friends in the right places: The effect of political connections on corporate merger activity." *Journal of Corporate Finance* **41**, 81-102.

Ferris, S.P., Kim, K.A., Nishikawa, T. and Unlu, E. (2011) "Reaching for the stars: the appointment of celebrities to corporate boards", *International Review of Economics* **58**, 337-358.

Field, L.C., Souther, M.E. and Yore, A.S. (2020) "At the table but can't break through the glass ceiling: board leadership positions elude diverse directors" *Journal of Financial Economics* **137**, 787-814.

Fich, E. M. (2005) "Are some outside directors better than others? Evidence from director appointments by Fortune 1000 firms", *The Journal of Business* **78**, 1943-1972.

Gogolin, F., Cummins, M., & Dowling, M. (2018) "The value of director reputation: Evidence from outside director appointments." *Finance Research Letters* **27**, 266-272.

Groysberg, B., Hill, A., and Johnson, T. (2010) "Which of these people is your future CEO?" *Harvard Business Review* **88**, 80-85.

Hambrick, D.C. and Mason, P.A. (1984) "Upper echelons: The organization as a reflection of its top managers", *Academy of Management Review* **9**, 193-206.

Jackson, J.J., Thoemmes, F., Jonkmann, K., Lüdtke, O. and Trautwein, U. (2012) "Military training and personality trait development: Does the military make the man, or does the man make the military?", *Psychological Science* **23**, 270-277.

Kim, H.D., Oh, J.Y.J. and Park, K. (2017) "Men of honor: Military CEOs and directors in Korea", Asian Finance Association 2017 Conference.

Koch-Bayram, I.F. and Wernicke, G. (2018) "Drilled to obey? Ex-military CEOs and financial miscounduct", *Strategic Management Journal* **39**, 2943-2964.

Law, K.K.F. and Mills, L.F. (2017) "Military experience and corporate tax avoidance", *Review of Accounting Studies* **22**, 141-184.

Lin, L., Nguyen, N.H., Young, M. and Zou, L. (2020) "Military executives and corporate outcomes: Evidence from China", *Emerging Markets Review*, 100765.

Luo, J.H., Xiang, Y. and Zhu, R. (2017) "Military top executives and corporate philanthropy: Evidence from China", *Asia Pacific Journal of Management* **34**, 725-755.

Malmendier, U., Tate, G. and Yan, J. (2011) "Overconfidence and early-life experiences: The effect of managerial traits on corporate financial policies", *Journal of Finance* **66**, 1687-1733.

Mollah, S., Skully, M. and Liljeblom, E. (2021) "Strong boards and risk-taking in Islamic banks", *Review of Corporate Finance* **1**, 135-180.

O'Keefe, B. (2010) "Battle-tested: how a decade of war has created a new generation of elite business leaders" *Fortune* **161**, 108-118.

Redor, E. (2015) "Does board diversity matter? Evidence from the market reaction to directors' departures", *Economics Bulletin* **35**, 1434-1442.

Redor, E., and Blomkvist, M. (2021). "Do all inside and affiliated directors hold the same value for shareholders?" *Economics Bulletin **41***, 882-895.

Rosenstein, S. and Wyatt, J.G. (1990) “Outside directors, board independence, and shareholder wealth”, *Journal of Financial Economics* **26,** 175-191.

Simpson, J. and Sariol, A.M. (2019) “Squared Away: Veterans on the Board of Directors”, *Journal of Business Ethics* **160,** 1035-1045.

Von Meyerinck, F., Oesch, D. and Schmid, M. (2016) “Is director industry experience valuable?”, *Financial Management* **45**, 207-237.

Wang, M. C. and Lee, Y. C. (2012) “The signaling effect of independent director appointments”, Emerging Markets Finance and Trade **48**, 25-47.

Xie, G. and Hao, Y. (2017) “Military experience and corporate social responsibility: Evidence from China”, SSRN working paper.