

Ex-Military CEOs: Leaders with Integrity

Research published in the Strategic Management Journal studied whether the military background of CEOs influences their likelihood of engaging in financial misconduct. The researchers note that, historically, major U.S. companies have commonly employed CEOs with a military background, and, while less common today (roughly 8% versus nearly 60% in the 1980s), it is important to understand whether a CEO's military background influences their leadership. The study's authors argue that the military attracts individuals that value discipline, integrity, and deference to rules and reinforces those qualities, such that firms headed by ex-military CEOs are less likely to engage in financial misconduct than those led by CEOs without a military background.

Key Takeaways:

- CEOs with military backgrounds are less likely to engage in fraudulent financial reporting and stock option backdating.
- Ex-military CEOs with stronger board oversight are additionally less likely to commit financial misconduct.
- Military branch, rank, and combat experience do not additionally affect likelihood of financial misconduct.

The researchers examined all instances of fraudulent financial reporting from 1992-2011 and likely backdating of stock options from 1996-2005. They found that firms headed by ex-military CEOs were nearly 3% less likely to be granted suspiciously-timed stock options and 63% less likely to have fraudulently reported financial results. The researchers did not find differences

based on the nature of the CEOs' military service (e.g., military branch, rank achieved, amount of combat experience) but do find that strong board oversight (i.e., separate board chair, more independent directors) is particularly effective in reducing the likelihood that ex-military CEOs commit financial misconduct.

The authors argue their findings suggest that military experiences are so profound as to have long-lasting effects on individuals', specifically CEOs', personal character and professional behavior, even for those with only brief or non-combat experience. The authors also suggest that having a "chain of command" of sorts, such as in the form of a strong board of directors, can more strongly initiate CEOs' ex-military identity and their inclination to follow orders.

Koch-Bayram, I.F., & Wernicke, G. (2018). Drilled to Obey? Ex-Military CEOs and Financial Misconduct. Strategic Management Journal, DOI: 10.1002/smj.2946.

