

Military Directors and Corporate Social Responsibility

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ABSTRACT

We investigate how directors' military experience affects corporate social responsibility (CSR) performance. Using a novel dataset of directors with military experience, we document a positive relation between the presence of independent military directors (IMDs) and overall CSR performance. Further analysis of individual categories of CSR reveals that firms with IMDs tend to perform more responsibly in community welfare, diversity, and employee relations, but less responsibly with respect to the environment, human rights, and product-related activities. Finally, we find that the presence of IMDs reverses the negative relation between CSR engagement and firm risk (measured by credit ratings), but exacerbates the negative relation between CSR engagement and firm performance (measured by Tobin's Q).

Keywords: Military, board of directors, corporate social responsibility

INTRODUCTION

There is a growing body of literature examining the relation between corporate social responsibility (CSR) activities and the personal characteristics of corporate leaders who make decisions on firm CSR engagement. In this paper, we explore an important but under-researched personal trait—military experience—and investigate how the presence of independent directors with military experience (IMDs) is associated with firm CSR engagement. On one hand, military service leaves a unique imprint on veterans, characterized by integrity, ethics, duty, and dedication (Franke, 2001; Soeters, 1997; Stevens, Rosa, and Gardner, 1994), which makes IMDs feel morally responsible to society and motivates them to promote socially responsible decisions. On the other hand, military service also involves training with lethal weapons, where casualties and environmental destruction are often viewed as inevitable collateral damage. With such mindset IMDs may not give enough attention to social and environmental welfare. In addition, strict command hierarchy can lead to unquestioning obedience and moral bystander behaviors in veterans (Bradley and MacIntyre, 2017), and thus, military directors may be less likely to question inadequate CSR engagement. As a result, IMDs may not act as responsibly in CSR initiatives as their civilian counterparts do. Therefore, the net effect of IMD presence on a firm's CSR engagement remains an empirical question.

Our empirical analysis yields a significant positive relationship between the presence of IMDs and overall CSR performance measured by the Kinder, Lydenberg, and Domini (KLD). In further examination of the individual categories of CSR, we find that firms with IMDs are more likely to promote social responsibility in community welfare, diversity, and employee relations, but are less responsible with respect to environment, human rights, and product-related activities.

METHODOLOGY

Sample

Our sample consists of 14,504 U.S. firm-year observations, representing 2,699 unique firms from BoardEx over the period from 2003 to 2012.

Independent Military Directors (IMDs)

We manually identify 1,115 independent military directors out of a total of 18,883 directors based on the information of their education and achievements provided by BoardEx. More than 40 percent of our firm-year observations have at least one IMD on their boards, and the ratio stays steady over time and across most industries.

Corporate social responsibility measures

We measure overall CSR engagement with *CSR_raw*, by summing up the score across seven primary categories: community, governance, diversity, employee relations, environment, human rights, and products provided by KLD. Our alternative measure, *CSR_IRT*, employs the score developed by Carroll, Primo, and Richter (2016), who use item response theory and measure a firm's CSR performance as a latent variable estimated from a Bayesian model with KLD data.

Regression model

We examine the relation between the presence of IMDs and CSR engagement by estimating the following regression specification:

$$CSR_{i,t+1} = \alpha + \beta(IMD_dummy_{i,t}) + \gamma Controls_{i,t} + \omega_t + \mu_j + \varepsilon_{i,t} \quad (1)$$

The dependent variable is one of our CSR measures. We control for factors known to explain differences in CSR performance, such as *Ln(MV)*, *Ln(Firm age)*, *Tobin's Q*, *ROA*, *Leverage ratio*, *Payout ratio*, *R&D*, *Institutional ownership*, *Female CEO*, *Ln(CEO tenure)*, and *CEO duality*. In addition, we control for year fixed effects (ω_t) and industry fixed effects (μ_j).

CONCLUSION

In this paper, we investigate whether and how directors' military experience affects firm CSR engagement. We find that firms with IMDs have better overall CSR performance than firms without IMDs, and our findings are robust to various identification strategies. In further examination of the individual categories of CSR, we find that the presence of IMDs is associated with greater engagement in community, diversity, and employee relations, leading to better overall CSR engagement.

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