

Performance of executive military experience in company ESG

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Abstract. The personal experiences of managers have become an important issue in corporate governance and development in the field of management. Evaluating a company's performance from the aspects of environmental, social, and governance (ESG) has been a popular research topic in recent years. This article empirically examines the impact of managers' military backgrounds on a company's ESG performance based on samples of listed companies from 2006 to 2022. The study found that: (1) Managers with military backgrounds have a positive impact on a company's ESG performance; (2) In companies with high power concentration, the promoting effect of military executives on the company is more significant; (3) In companies with poor operating conditions, the promoting effect of military executives on the company is more pronounced. This study enriches the related research on the relationship between managers' military backgrounds and a company's ESG performance. Expanding the heterogeneity analysis focusing on power concentration and operating conditions, and provides reference for future research in this area.

Keywords: ESG performance, Management's military experience, Concentration of Power Business.

1. Introdection

With the proposal of the upper echelon's theory, more and more scholars have begun to study corporate managers with different background characteristics [1]. Among these characteristics, early experiences of the management team and the social context in which they operate are often considered key factors. A military career is a unique life experience that belongs to both early experiences and is influenced by social background. Many define it as a memorable and profoundly impactful experience, particularly in terms of changing one's mindset and shaping personal values [2]. The resilience honed, the adherence to rules, and the awareness of teamwork cultivated during military life do not disappear upon discharge; instead, they integrate with the individual and manifest in the decisions they make thereafter [3].

In recent years, the multidimensional measurement indicator of ESG (Environmental, Social, and Governance) in enterprises has been widely used by numerous scholars and has also garnered extensive attention from society and countries. This indicator encompasses environmental protection, social responsibility, and corporate governance, and apart from its strong comprehensiveness and broad coverage, it holds significant importance for the development of enterprises, as well as countries and societies. In 2018, China issued the "Listed Company Governance Guidelines," establishing the basic framework for ESG information disclosure, which has enriched academic research on ESG [4].

However, existing literature on the study of military experience in executives has mainly focused on aspects such as corporate governance (Wu et al., 2021), earnings management (Zhang et al., 2019), internal controls (Liao et al., 2018), and the like, lacking research analysis that integrates comprehensive indicators like enterprise ESG [5]-[7]. Therefore, combining the above viewpoints, this study selected A-share listed companies from 2006 to 2022 as the research subjects, using company chairpersons as representatives of corporate executives for the study. Bloomberg ESG scores were employed to measure corporate ESG performance. After gradually regressing, it was

found that executives with military experience have a significantly positive impact on corporate ESG performance. Robustness tests were conducted by changing variables, considering provincial influences, using PSM, and excluding major events. Results were robust. Following this, heterogeneity analysis was conducted on the concentration of power in chairpersons and the operational conditions of enterprises. Empirical findings indicated a positive correlation between power concentration and the promotion of ESG by executives with military backgrounds, suggesting that power concentration aids these executives in enhancing corporate ESG performance.

Secondly, considering the significant differences in operational conditions among enterprises, which may affect ESG performance, the study introduced operational leverage. The empirical sample was divided into two groups based on operational risk - high and low. The results showed that in enterprises with lower operational risk, the positive impact of executives with military backgrounds on ESG performance was more pronounced.

The marginal contributions of this article mainly include the following aspects. Firstly, there is currently limited research on the impact of executives' military experience on corporate ESG performance, and this study enriches the research in this field, providing valuable reference. Secondly, in the further analysis stage, this study selected power concentration and operational leverage as research perspectives, empirically demonstrating that executives with military backgrounds have a stronger promoting effect on corporate ESG performance in companies with high power concentration or low operational leverage. This broadens the research direction and supplements the research results in these two aspects, which can be beneficial for other scholars to conduct further studies.

2. Theoretical Analysis & Research hypothesis

2.1. ESG performance and military experience

There are many cases of executives with military experience making outstanding contributions to companies, such as Ren Zhengfei from Huawei and Liu Chuanzhi from Lenovo[8]. Because joining the military typically signifies the cultivation of good conduct and social welfare, most scholars believe that military experience has a positive impact on personal conduct and development[9]. In fact, the qualities and training that military experience instills in individuals also have a significant impact on corporate management. The criteria for judging the success or failure of a company's development in today's society and academic circles vary. One common way to evaluate companies is through ESG performance ratings. Based on the three main aspects covered by ESG - corporate governance, social responsibility, and environmental awareness - the following theoretical analysis will be conducted [10].

There is currently no unified definition in the academic community regarding the relationship and impact of executives with military experience on corporate governance. Some scholars have empirically demonstrated that executives with military experience have a significant inhibitory effect on cost stickiness in companies, indirectly promoting corporate development [5]. Some scholars Wang and Xu, (2020) have approached the relationship between executives with military experience and corporate governance from the perspective of earnings management, demonstrating the importance and significance of military-experienced executives in this context [11]. This study tends to analyze this relationship from the perspectives of revenue and expenditure conditions and risk control. For example, some scholars have suggested that companies with military-experienced managers tend to invest more in research and development, which may lead to increased costs but also an increase in the potential for innovation and development [12]. Additionally, other research has found that managers with military experience have a negative correlation with risk-taking, indicating that individuals with military experience may tend to be risk-averse [13].

Some scholars (Li et al., 2023) believe that executives with military experience play a role in promoting the social responsibility of the companies they lead [14]. Existing literature on social responsibility defines it as external social responsibility and internal social responsibility, both of

which focus on the company itself [15]. External social responsibility refers to responding to external pressures such as policies and societal feedback. Internal social responsibility, on the other hand, is intrinsic and stems from the personal sense of responsibility of the individuals within the company. When these two types of responsibilities are not aligned, it can lead to the phenomenon of pseudo-social responsibility. Executives with military backgrounds may bring a sense of duty, discipline, and commitment to social responsibility, which can positively impact the company's engagement in social responsibility initiatives [16].

Existing literature on the relationship between executives with military experience and environmental governance is limited. From a macro perspective, China has already issued more than 20 national-level environmental regulations. However, due to the conflicting needs of economic development and environmental protection, and the discretionary power of local governments, economic development often takes precedence over environmental protection [17]. Some scholars have found that managers with military experience are negatively correlated with corporate pollution. This study suggests that individuals with military experience prioritize environmental protection and governance over economic development, reflecting the collective and rule-abiding moral psychology often associated with military backgrounds. This indicates that executives with military experience may have a greater focus on environmental sustainability and be more inclined towards environmentally responsible practices within their organizations [18]-[20].

Taking into account the above viewpoints, this study uses corporate ESG (Environmental, Social, Governance) as a comprehensive evaluation indicator for corporate governance, social responsibility, and environmental protection, to investigate the impact of executives' military experience on this indicator. Based on the discussion above, the following hypothesis is proposed.

Hypothesis H1: Executives with military experience have a significant positive effect on the corporate ESG rating performance.

3. Research design

3.1. Sample selection and data sources

This study selects Chinese A-share listed companies from 2006 to 2022 as the initial research objects and processes the research sample as follows: (1) Exclude companies listed as ST, *ST, or PT during the statistical period; (2) Exclude listed companies in the financial industry; (3) Exclude companies with missing or outlier values. Lastly, all continuous variables in the study are winsorized at the 1st percentile, resulting in a final sample of 9065 observations.

3.2. Variable definition

3.2.1. Dependent variable: Company ESG performance

This study selects the ESG rating of listed companies as the dependent variable. The scores are obtained from the Bloomberg database, where a higher score indicates better information quality of the company in terms of ESG. Following the practices of Xu et al. (2024), the assigned ESG rating is chosen as the measure of corporate ESG performance [21].

3.2.2. Independent variable: Executive military experience

The core explanatory variable in this study is executives' military experience, which is obtained from the CSMAR database's listed company personnel characteristics database. The data is filtered through keywords such as "military school," "enlistment," "joining the army," "serving in the military," and manually curated. Drawing on the viewpoints of Yan and Zhao, (2016) that the development and planning of Chinese listed companies are usually centered around their chairperson, this study defines corporate executives as the chairperson of the company. Military experience of executives is defined as a binary variable (0-1), where 1 indicates having military experience and 0 indicates no military experience [22].

3.2.3. Control variables

Following the practices of Wu et al. (2021), this study includes ROA (Return on Assets), Size (Firm Size), Lev (Leverage), TOP1 (Percentage of shares held by the largest shareholder), Growth (Revenue Growth Rate), ListAge (Years of Listing), BM Book-to-Market Ratio), and Dual (Dual Role) as control variables [5]. Additionally, it controls for industry-year fixed effects to account for potential industry-specific and time-specific factors. The detailed control variables are presented in Table 1.

Table 1. Variable Definition

Variable symbols	Variable definition
ESG	Bloomberg ESG rating assigned scores
chairarmy	Chairman military experience: 1 if present, 0 if not
ROA	Net profit margin of total assets for the company, calculated as net profit divided by the average of the beginning and ending total assets
Size	Market capitalization of a listed company, obtained by taking the logarithm of the total assets of the company
Lev	Debt-to-asset ratio of the company, calculated as total liabilities divided by total assets
TOP1	Ownership percentage of the largest shareholder, calculated as the number of shares held by the largest shareholder divided by the total number of shares outstanding
Growth	Revenue growth rate of the company: calculated as the change in operating revenue divided by the previous period's operating revenue
BM	Price-to-book ratio, calculated as the company's market value divided by the book value per share
ListAge	Number of years since the company went public
Dual	Whether the chairman and the general manager are the same person, if yes, take 1; otherwise, take 0

3.3. Research model design

To test the research hypothesis, the study sets up the following regression model, following the approach of other scholars [23]:

$$ESG_{i,t} = a_0 + a_1 chairarmy_{i,t} + a_2 controls_{i,t} + Year_t + Industry_i + \varepsilon_{i,t} \quad (1)$$

Here, the subscript i represents the firm, and t represents the year. $ESG_{i,t}$ denotes the ESG rating assigned to the firm, $chairarmy_{i,t}$ represents the binary variable for the chairperson's military experience, $controls_{i,t}$ represent the control variables, $Industry_i$ and $Year_t$ are industry and year fixed effects, respectively.

4. Empirical analysis

4.1. Descriptive statistics analysis

The descriptive statistics results are presented in Table 2. The range of the dependent variable, ESG rating of the companies, is 62.67, with a standard deviation of 8.066. This indicates a significant variation in ESG ratings among the individual listed companies. The median and mean values are relatively close, suggesting a fairly even distribution of the sample data without significant skewness. Regarding the explanatory variable of military experience, approximately 6% of corporate executives have military experience. This proportion is consistent with the findings of Quan and reflects the relatively low percentage of executives with military experience in Chinese listed companies [24]. The median and mean values of the remaining control variables do not deviate significantly, indicating a distribution that is generally close to a normal distribution.

Table 2. Summary Statistics

VarName	Obs	Mean	SD	Min	Median	Max
BloombergESG	9065	24.9617	8.066	6.20	25.44	68.87
chairarmy	9065	0.0036	0.060	0.00	0.00	1.00
Size	9065	23.0953	1.278	19.43	23.01	26.45
Lev	9065	0.4953	0.194	0.03	0.51	0.91
Growth	9065	0.1748	0.426	-0.66	0.11	4.02
ROA	9065	0.0424	0.059	-0.37	0.04	0.26
Dual	9065	0.1603	0.367	0.00	0.00	1.00
BM	9065	0.6864	0.260	0.10	0.69	1.25
TOP1	9065	0.3913	0.161	0.80	0.39	0.76
ListAge	9065	2.4909	0.592	0.00	2.64	3.40

4.2. Regression of executive military experience on company ESG performance

Following the approach of Wu and Wu, (2023), a stepwise regression analysis was conducted to regress ESG against executives' military experience [25]. The regression results are presented in Table 3. In particular, in Eq. (1) where the effects of time, industry dummy variables, and control variables were not considered, a positive and significant correlation at the 5% level was observed. Eq. (2) to (4) introduced various control variables. Eq. (3) included industry fixed effects, while Eq. (4) incorporated industry-year bidirectional fixed effects. The regression results of all three models were significant at the 1% level. This indicates that military experience has a positive impact on the ESG performance of companies, providing empirical support for hypothesis H1 in this study.

Table 3. Benchmark regression results

	ESG (1)	ESG (2)	ESG (3)	ESG (4)
chairarmy	3.2510**	8.2714***	5.2019***	4.8944***
	(2.31)	(8.40)	(6.77)	(6.44)
Size		3.9548***	2.3228***	2.2486***
		(62.81)	(41.72)	(38.57)
Lev		-13.2794***	-5.0017***	-4.5492***
		(-34.59)	(-15.60)	(-13.09)
Growth		-0.0315	-0.2157*	-0.1615
		(-0.22)	(-1.87)	(-1.42)
ROA		-28.8526***	-9.6836***	-8.7582***
		(-23.60)	(-9.68)	(-8.57)
Dual		0.7865***	-0.4018***	-0.3726***
		(4.78)	(-3.10)	(-2.88)
BM		-0.8629***	-0.3426	-0.1055
		(-2.86)	(-1.31)	(-0.37)
TOP1		0.0108***	0.0320***	0.0265***
		(2.78)	(10.48)	(8.24)
ListAge		4.7506***	1.8590***	1.8293***
		(44.11)	(20.09)	(18.96)
Constant	24.9499***	-70.3901***	-31.3613***	-29.7946***
	(294.03)	(-55.98)	(-27.47)	(-24.71)
Year	No	No	Yes	Yes
Ind	No	No	No	Yes
N	9065	9065	9063	9063
F	5.3437	5.990	978.7378	294.9412
R2	0.0005	0.5119	0.5320	0.7171

t statistics in parentheses * p < 0.1, ** p < 0.05, *** p < 0.01, the same as above.

4.3. Robustness testing

4.3.1. Replace the way the dependent variable ESG is measured

Following the approach of Zhang et al. (2023), the ESG score was replaced with the Huazhong ESG score from the CSMAR database as the dependent variable (ESGscore) [26]. After removing some missing and outlier values and controlling for industry and time fixed effects, Table 4 Eq. (1) was obtained. From the regression results, the coefficient remains significantly positive, consistent with the previous findings.

Table 4. Replace variables and Heckman two-step regression

	ESGscore (1)	ESG (2)	ESG (3)	HeckmanI (4)	HeckmanII (5)
CEOarmy		5.8350***			
		(5.19)			
presarmy			6.4673***		
			(4.93)		
chairarmy	2.8946***				6.9226***
	(3.27)				(23.11)
News				0.0003**	
				(2.56)	
IMR					-10.9939***
					(-8.60)
Constant	47.7603***	-29.6205***	-29.6645***	-5.3333***	-6.0775*
	(34.20)	(-24.56)	(-24.59)	(-14.35)	(-1.66)
Controls	Yes	Yes	Yes	Yes	Yes
Year	Yes	Yes	Yes	Yes	Yes
Ind	Yes	Yes	Yes	Yes	Yes
N	8223	9063	9063	11313	9063
F/LR chi2	95.4264	292.8580	292.4762	738.1701	300.9334
R2	0.1957	0.7167	0.7166	0.0640	0.6403

4.3.2. Replace the range of values for executives with military experience

In this study, the use of the chairman as a representative of military experience was mentioned earlier. However, considering that overseas practices often use the CEO or general manager as executive representatives, following the approach of Wang and Xu, (2020) and others, the scope of military experience was replaced from the chairman to the CEO and general manager for regression analysis[11].After removing some missing and outlier values, the results are shown in Table 4, where Eq. (2) presents the regression results with CEO's military experience as the independent variable, and Eq. (3) presents the regression results with general manager's military experience as the independent variable. It can be seen from the results that replacing the chairman with the CEO or general manager in the regression analysis with ESG results in significant positive correlations at the 1% level, consistent with the baseline regression.

4.3.3. Heckman two stage-procedure

Considering the endogeneity issues that may exist in the research subject, following the approach of He (2023), we employ the number of news reports (News) as an instrumental variable for corporate disclosure and conduct a two-stage Heckman test on corporate ESG performance [26]. In the specific operational process, we first take corporate financial indicators and executive background characteristics as the dependent variables, conduct regression using a probit model, and obtain the inverse Mills ratio (IMR). In the second stage, the IMR is incorporated into the baseline regression to recalculate the coefficients. As shown in Table 4, Eq. (4) represents the first-stage regression, which indicates a positive and significant relationship between the number of news reports and corporate ESG, suggesting that media attention has a positive impact on corporate ESG. Eq. (5)

represents the second-stage regression, and the results show that the military background of executives continues to have a positive and significant effect on corporate ESG, indicating that military executives still have a positive relationship with corporate ESG even after considering endogeneity issues.

4.3.4. Propensity score matching method

To address the endogeneity issue arising from omitted variables. Drawing on the methodology of Li et al. (2023), propensity score matching (PSM) was used for endogeneity testing [14]. First, the executives with military experience are treated as the experimental group. Then, following. Zhang et al. (2023), variables including REC, Lev, WW index, ListAge, and Size are used as covariates, all the aforementioned variables have passed the balance test. A control group is constructed through propensity score matching using a logit model. Subsequently, tests are conducted using nearest neighbor 1:4 matching, radius matching, and kernel matching [27]. Regression results for the sample after assigning scores are presented in Table 5. Eq. (1) represents the neighbor 1:4 matching method, Eq. (2) represents the kernel matching method, and Eq. (3) represents the radius matching method. From the regression results, it can be observed that the positive significance of executives' military experience on ESG at the 1% level is still maintained, consistent with the benchmark regression results. This indicates that after considering endogeneity issues, hypothesis H1 still holds true.

Table 5. Propensity score matching.

	ESG (1)	ESG (2)	ESG (3)	ESG (4)	ESG (5)
	Neighbor4	Kernel	Radius	Province	Major event
chairarmy	4.1886*** (3.16)	4.5136*** (5.72)	4.5133*** (5.80)	4.7526*** (6.31)	4.4705*** (4.55)
Constant	-39.8761*** (-3.45)	-29.6449*** (-23.83)	-27.4835*** (-21.23)	-28.6023*** (-23.02)	-25.9259*** (-19.26)
Controls	Yes	Yes	Yes	Yes	Yes
Year	Yes	Yes	Yes	Yes	Yes
Ind	Yes	Yes	Yes	Yes	Yes
Province	No	No	No	Yes	No
N	139	8690	8054	9063	6625
F	8.2680	275.9044	233.1524	269.1652	190.2783
R2	0.8590	0.7172	0.7072	0.7247	0.6821

4.3.5. Add provincial fixed effects

Considering that different provinces may have varying impacts on the development and operations of companies, subsequently affecting their ESG performance, provincial fixed effects were added in the fixed effects model, following the approach of Shi and Jiang [28]. The results are shown in Table 5 Eq. (4), where even after controlling for provincial fixed effects, the regression results remain significantly positive at the 1% level, consistent with the baseline regression results, indicating the robustness of the empirical findings.

4.3.6. Consider the impact of major events

Taking into account that significant events may impact corporate development and subsequently influence ESG ratings, this study designates the years 2008 and 2015 as years of major events, such as financial crises. Furthermore, following the perspective of Hao et al. (2024), the years 2020-2022, marked by the COVID-19 pandemic, are considered as significant exogenous events [29]. Regression analysis was conducted after excluding data from the years of these major events, and the results, as presented in Table 5 Eq. (5), show that military-experienced executives still exhibit a significant positive effect on ESG performance at the 1% level, indicating the robustness of the hypothesis even after accounting for the influence of major events.

5. Further analysis

5.1. The impact of military managers in companies with different degrees of separation between two positions

In companies with different degrees of board and CEO separation, there may be variations in the decision-making and managerial power held by the Chairman. Drawing on the perspective of Quan et al. (2019), which suggests that the role of the Chairman in a company is related to their power [24], this study introduces the indicator of board and CEO separation rate (Separate) and uses the median as a benchmark to divide the sample into low and high board and CEO separation groups for regression analysis. The regression results, as shown in Table 6, where Eq. (1) represents the low separation group and Eq. (2) represents the high separation group, indicate that in the low separation group, the military experience of the Chairman still has a significant positive effect on the company's ESG performance at the 1% level. However, in the high separation group, the relationship is positive but not significant. This result suggests that in companies with more centralized power, Chairmen with military experience have a more pronounced positive impact on ESG performance, whereas in companies with higher power dispersion, Chairmen with military experience do not have a significant promoting effect on ESG performance, which is consistent with the findings. The reason for this result may be that Chairmen in companies with low power separation can control more aspects and their positive impact on the company can be better realized, leading to a stronger significance compared to companies with high power separation. After testing the difference in coefficients by grouping regression, an empirical p-value of 0.05 was obtained, indicating that there is a significant difference between low separation group and high separation group at the 5% level.

Table 6. Heterogeneity analysis based on segregation and operating leverage.

	ESG Low-Separate (1)	ESG High-Separate (2)	ESG Low-OL (3)	ESG High-OL (4)
chairarmy	5.7993*** (6.64)	1.5589 (0.98)	7.1903*** (7.43)	1.6115 (1.34)
Constant	-30.6985*** (-20.33)	-24.2716*** (-11.54)	-26.9325*** (-17.37)	-33.4445*** (-17.24)
Controls	Yes	Yes	Yes	Yes
Year	Yes	Yes	Yes	Yes
Ind	Yes	Yes	Yes	Yes
N	5732	3328	4897	4165
F	199.6637	79.6738	156.4535	137.3929
R2	0.7182	0.7270	0.7311	0.7060
P-value	0.050		0.000	

5.2. The impact of military managers on the operational performance of different companies

ESG performance of a company involves various considerations regarding the company's overall performance, while the impact of a company's operational status on itself is typically multifaceted as well. Considering that executives with military experience may have different effects on a company's ESG performance depending on the level of operational management of the company, this study uses the operating leverage OL (EBIT/sales) as an indicator to differentiate the operational status of companies, with those above the mean considered to have higher operational risk and those below the mean considered to have lower operational risk. The regression results after grouping are presented in Table 6, where Eq. (3) and Eq. (4) represent the groups of companies with lower and higher operational risk, respectively. The results indicate that the promoting effect of executives with military experience on a company's ESG performance is more significant in companies with lower operational risk. The reason for this result may be that higher operating leverage leads to greater profit

volatility, which directly impacts the company's operational status, potentially affecting the promoting role of executives on the company. In companies with lower operational risk and smaller profit volatility, the promoting effect of executives with military experience can be better realized, leading to more significant results. After testing the difference in coefficients by grouping regression, an empirical p-value of 0.00 was obtained, indicating that there is a significant difference between lower operational risk group and higher operational risk group at the 1% level.

6. Conclusion

ESG performance is an important indicator for evaluating the development level of a company, and executives with military backgrounds belong to a special group within the company's leadership team. This study focuses on the relationship between executives' military experience and corporate ESG performance, examining the impact of executives with military backgrounds on company ESG performance through a study of samples of Chinese A-share listed companies from 2006 to 2022. The research findings are as follows: Firstly, executives with military backgrounds have a significantly positive impact on company ESG performance, indicating that executives with military experience play a promoting role in the ESG performance of their respective companies. Secondly, the degree of concentration of executive power affects their performance on corporate ESG. The research results show that in companies with higher power concentration, the positive impact of executives on ESG is more significant, meaning that executives with more power can more effectively promote company ESG performance. Thirdly, differences in corporate operational risk also affect the impact of executives with military experience on company ESG, with the results showing that in companies with lower operational risk, the positive impact of executives with military backgrounds on ESG is more significant.

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