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The role of military directors in holding the CEO accountable for poor firm performance

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Abstract

Research Summary: Why do some boards of directors dismiss the CEO when a firm performs poorly, while others do not? We argue that military directors—outside directors with military backgrounds—on the board increase the likelihood of CEO dismissal under low-performance conditions. Military service instills a lifelong system of values and beliefs related to accountability—the obligation to accept responsibility for one's own actions and outcomes—which leads military directors to attribute low performance to the CEO and hold the CEO strictly accountable for such performance. This argument is supported by extensive quantitative data on CEO dismissal in publicly listed firms and qualitative data obtained from interviews with military directors who have served on boards of those firms.

Managerial Summary: Military directors—outside directors with military backgrounds—frequently occupy seats on the boards of publicly listed firms in the United States. Military service instills an enduring system of values and beliefs rooted in accountability, which, we argue, makes military directors more inclined to attribute performance shortfalls to the CEO and advocate for more rigorous CEO accountability, resulting in CEO dismissal. Our argument is supported by quantitative data on CEO dismissals within publicly listed firms and qualitative data derived from interviews with military directors who have served on boards of those firms. Our findings underscore that principles ingrained via military service may influence corporate governance, particularly one of its core components: executive accountability.

KEYWORDS

accountability, board of directors, CEO dismissal, military directors, performance

1 | INTRODUCTION

CEO dismissal—the act of replacing CEOs against their will (Zhang, 2006, 2008)—is described as "a window to the heart of executive accountability" (Crossland & Chen, 2013, p. 79). Because of their role within a firm, CEOs are personally responsible for firm performance (Finkelstein et al., 2009; Fredrickson et al., 1988). When firm performance is low, the board of directors is expected to ensure executive accountability, which may include CEO dismissal (Wiersema & Zhang, 2011). However, despite this expectation, extensive empirical evidence indicates high variance in CEO dismissal rates among poorly performing firms (for reviews, see Berns et al., 2021; Hilger et al., 2013). This variance raises the following question: Why are the boards of some underperforming firms more likely than others to hold the CEO accountable through dismissal?

Prior research addressing this question has focused primarily on agency-based explanations related to CEO power vis-à-vis the board or the board's loyalty to the CEO (e.g., Boeker, 1992; Flickinger et al., 2016) and situational explanations related to analysts' evaluations of the CEO or the availability of CEO replacements (e.g., Wiersema & Zhang, 2011; Zhang, 2006). More recently, a smaller body of research has elucidated the importance of director backgrounds, suggesting that directors' demographic (Shin & You, 2023) and business backgrounds (Zorn et al., 2020) influence a board's decision to dismiss an underperforming CEO. Additionally, directors vary in their nonbusiness backgrounds. In particular, directors with military backgrounds, hereafter referred to as military directors, are commonly found on the boards of public firms (e.g., Fedaseyeu et al., 2018; Koch-Bayram & Wernicke, 2018; Marino, 2015). Military background is recognized for shaping individual accountability (e.g., Broedling, 1981; Franke, 2001; Lerner & Tetlock, 1999; Romzek & Ingraham, 2000), thus potentially influencing the manner in which boards with military directors approach executive accountability. Nevertheless, the relationship between the board participation of military directors and CEO dismissal remains unexplored.

To theorize about this relationship, we draw upon military science research, which suggests that military service has a lasting impact on individuals' values and beliefs, significantly shaping their understanding of what constitutes appropriate behavior later in life (e.g., Sonpar et al., 2022; Zhang et al., 2022). Specifically, military service instills in individuals a unique and lifelong system of values and beliefs regarding accountability, making individuals accustomed to being held accountable and holding others accountable for actions and outcomes (e.g., Broedling, 1981; Franke, 2001; Romzek & Ingraham, 2000). These values and beliefs align directly with executive accountability, a central mechanism for boards to ensure that CEOs act in the best interest of shareholders (e.g., Crossland & Chen, 2013; Huse, 2005; Roberts et al., 2005). Accordingly, we argue that accountability values and beliefs prompt military directors to advocate for stricter CEO accountability when firm performance is poor, thereby increasing the likelihood of CEO dismissal. As military directors have received limited attention in prior research, we enrich our deductive theorizing by adding insights from qualitative data obtained through interviews with 20 military directors who have collectively served on the boards of 34 public firms.

We find empirical support for our argument based on the results from regression analyses of quantitative data on CEO dismissal within 865 public firms in the United States between 2010 and 2020. In our supplementary analyses on boundary conditions, we find that the influence of military directors on CEO dismissal is more pronounced when military directors serve on a nominating committee. We also find that military directors might even facilitate the dismissal of powerful (stock owner or long-tenured) CEOs but not CEOs who concurrently hold the position of a board chair. Through our arguments and findings, we contribute to the literature on CEO dismissal by revealing a novel, accountability-related factor that explains the variance in CEO dismissal rates across low-performing firms.

2 | THEORY AND HYPOTHESIS

2.1 | Performance-related CEO dismissal

The board has a duty to evaluate the CEO's leadership for shareholders, and as a result, the CEO is formally accountable to the board (Huse, 2005). Boards employ firm performance as the primary metric for evaluating the CEO (Hambrick & Fukutomi, 1991). Given the CEO's position at the top of the firm, boards assign a disproportionately higher level of accountability to the CEO for firm performance than do other executives (Boeker, 1992). In cases of low performance, particularly compared to industry competitors (Haleblian & Rajagopalan, 2006), the board is expected to ensure CEO accountability via CEO dismissal (Fredrickson et al., 1988; Wiersema & Zhang, 2011).

However, empirical evidence indicates substantial variation in CEO dismissal rates among poorly performing firms (Berns et al., 2021; Hilger et al., 2013), which implies that the boards of some firms are more inclined than the boards of other firms to attribute low performance to the CEO and hold the CEO accountable. Recent literature reviews show that there has been growing scholarly effort to examine such variation (Berns et al., 2021; Gentry et al., 2021), pointing to two sets of explanatory factors. The first set of factors, rooted in the agency perspective, focuses on the CEO's power relative to the board and the board's loyalty to the CEO. For example, CEOs with extensive tenure within the firm (Ocasio, 1994), substantial ownership of the firm's stock (Wowak et al., 2011), or simultaneous roles as board chairs (Yi et al., 2020) can attribute low performance to external factors or other executives, insulating themselves from stringent accountability (Boeker, 1992). The second set of factors, derived from a contingency perspective, pertains to situational factors that prompt boards to demand stricter CEO accountability. For instance, boards lean toward CEO dismissal when analysts and employees assess the CEO's leadership unfavorably (Park et al., 2021; Wang et al., 2023) or when suitable CEO replacements are readily available (Zhang, 2006).

Beyond these factors, a board's governance approach is influenced by the backgrounds of its directors (Johnson et al., 2013). The demographic, business, and nonbusiness backgrounds shape what directors value, believe, and think about, impacting their decisions (Forbes & Milliken, 1999). Shin and You (2023) found that directors' demographic backgrounds create board faultlines, increasing disagreement among directors and thus hindering the removal of underperforming CEOs. Zorn et al. (2020) found that directors' business backgrounds, especially extensive board experience, reduce the choice-supportive bias that hinders boards from dismissing a CEO. In addition to demographic and business backgrounds, we expect directors' military backgrounds, a notable and life-shaping nonbusiness background (Campbell et al., 2023), to influence CEO dismissal.

2.2 | Military directors

Research in military science suggests that military service constitutes one of life's most profound experiences, significantly molding individuals' values and beliefs (Elder, 1986; Franke, 1998; Jackson et al., 2012). This alteration of values and beliefs begins during military training (Arkin & Dobrofsky, 1978; Soeters, 1997) as an individual's civilian identity evolves into a new military identity (Caspar et al., 2020; Jackson et al., 2012). The values and beliefs acquired during military service become ingrained, shaping how individuals think, feel, and act throughout their lives (Elder, 1986; Jenning & Markus, 1977; Wong et al., 2003). Even a relatively short period in the military can be sufficient for the military imprint to take hold and exert a lasting impact on how individuals interpret what constitutes appropriate behavior later in life (Sonpar et al., 2022; Zhang et al., 2022). In an interview with Korn/Ferry, a military director at Edwards Lifesciences and Xylem, emphasized that "[military] value systems guide your daily actions and decisions" (Duffy, 2006), while a director we interviewed noted, "when we work in a civilian organization, we transfer military beliefs and values and act based on those beliefs and values."[1]

In particular, during military training and service, people internalize values and beliefs related to accountability—the obligation to accept responsibility for one's actions and their outcomes (Lerner & Tetlock, 1999)—which leads to a habit of both being held accountable and holding others accountable for their actions and the outcomes of those actions (Ricks, 2012; Romzek & Ingraham, 2000). This process of internalizing such values and beliefs is influenced by the significance of the chain of command in military structures, the emphasis on adhering to orders and rules in military decision-making (Feld, 1959; Roberts et al., 1994), and the prevailing culture within the military that consistently upholds high standards for accountability (Hall, 2012; Wilson, 2008). Cultivating a sense of accountability and the expectation of the same from others begins early in military training (Bolles & Patrizio, 2016; Wong et al., 2003). The US Army's training guide emphasizes the fundamental value that soldiers are required to cultivate, which is "to be accountable" (Department of the Army, 2015, pp. 4–9). As accountability values and beliefs are integral to military culture (Wilson, 2008), they remain regularly reinforced throughout military service, or as one director simply puts it, "accountability is part of the discipline we grew up with in the military."

[1]Section 1 of Table A1 in the Online Appendix offers additional evidence from our interviews concerning the long-lasting impact of military values and beliefs on individuals' behaviors and decisions.

Anecdotal evidence supports these ideas. Military veterans in leadership roles in the education sector reported that they "have learned about accountability during military service" and that "their military experiences equipped them to lead in the face of accountability demands" (Bolles & Patrizio, 2016, p. 109). A military director at Xerox emphasized that "the leader should always take personal responsibility for results of the organization" (Lin et al., 2011, p. 1). A director we talked to compared military directors to other directors, explaining that "paying more attention and giving more weight to responsibility and accountability in achieving commitments and goals is where the impact of military people in the boardroom comes from; people in the business world are more forgiving."[2]

In summary, insights from military science, supported by our interview evidence, indicate that military directors hold strong beliefs that leaders are personally responsible for their organization's performance and emphasize accountability in their decision-making. Therefore, as detailed next, we expect military directors to prompt boards to attribute low performance to the CEO and to hold the CEO accountable for it, which increases the probability of CEO dismissal.[3]

2.3 | Military directors and performance-related CEO dismissal

Boards often grapple with ambiguity when assessing firm performance (Haleblian & Rajagopalan, 2006). In performance crises, high accountability standards compel military directors to address such ambiguity with thorough information processing (Roberts et al., 1994; Tetlock, 1985). During this process, they likely insist that the CEO discloses all information, even if it entails delivering "bad news" (Bamber et al., 2010; Soeters, 1997). This transparency is crucial since outside directors depend on the CEO to learn about the firm (Haleblian & Rajagopalan, 2006), forming the basis for the board's accurate performance assessment. As one military director expressed, "we [military directors] treat the situation as we find it rather than as we would wish it to be, and we tend to be interested in the accuracy and brevity of information; not everyone on a board will be that way." In their quest to understand performance reasons, military directors actively "search for information about how well the CEO is performing" (Fredrickson et al., 1988, p. 258) and insist on a direct evaluation of the CEO's contribution to performance issues. As one military director emphasized, "CEO evaluations must be done rigorously." Without such guidance from military directors, CEO evaluations can become mechanical processes, with directors merely going "through the motions" (Conger et al., 1998, p. 8), potentially allowing the CEO too much leeway in diagnosing the severity of the crisis.

Boards' performance evaluations inevitably involve attribution processes to understand poor performance causes (Haleblian & Rajagopalan, 2006). The CEO can influence such processes. For example, with significant power, a CEO can control the board's agenda, allocating less time to discussing causes of underperformance or using inside information to shape the board's perceptions (Ocasio, 1994; Yi et al., 2020). An influential CEO may craft a narrative that attributes low performance to external factors (Park et al., 2020; Park et al., 2021) or shifts blame to other executives (Boeker, 1992). However, for boards with military directors, a CEO may struggle to

[2]Section 2 of Table A1 in the Online Appendix presents additional interview evidence related to military directors' accountability values and beliefs.

[3]In formulating this hypothesis, we briefly reference evidence from interviews with military directors to shed light on their approach to CEO accountability and the underlying board processes related to CEO evaluations and dismissals. Additional interview evidence is presented Section 3 of Table A1 in the Online Appendix.

sway the board's interpretation or misattribute low performance. Military directors are comfortable asking difficult questions (Shortland et al., 2020), which may prompt other directors to do the same. As one military director said, "when I nudge folks a little bit into the conversation about CEO performance, everybody lets loose." Believing in a leader's ultimate responsibility for success and failure (Bolles & Patrizio, 2016; Wilson, 2008), military directors advocate connecting low performance to the CEO's leadership while being sensitive to a CEO's attempts to shift blame to other executives (Boeker, 1992). In contrast, for boards without military directors, the CEO may more easily shape the board's view on performance, and who, rather than the CEO, should be held accountable for it.

Some directors may help the CEO avoid accountability. CEO friends may see performance declines as temporary and persuade fellow directors to trust the CEO's ability to rectify the situation (Haleblian & Rajagopalan, 2006). CEO-appointed directors may feel obligated to return to the CEO and avoid overt criticism (Boeker, 1992). However, as military directors actively seek to "surrender private interests" (Daboub et al., 1995; Soeters, 1997) and "place service before self" (Franke, 2001), they may oppose directors who prioritize personal relations with the CEO over the firm's interests. In this context, "you can't turn the light switch on immediately, but you can begin to build that requirement" and "after numerous difficult discussions—and this is one other thing the military teaches you; sometimes you have to have tough discussions—you build that requirement," as two military directors explained. Without this accountability push from military directors, other directors will prioritize loyalty to the CEO over holding them accountable for low performance.

While the board may attribute poor performance to the CEO and agree on accountability, the scarcity of CEO replacements may lead to giving the CEO more time for performance recovery (Martin & Combs, 2011; Zhang, 2006). However, driven by strong accountability values and beliefs, military directors are less inclined to approve such decisions. As one military director noted, "the decision to terminate somebody is not an easy one, but too often businesses allow a problem to exist until it turns into a mushroom cloud disaster as opposed to dealing with it as things happen. I think part of the legacy for me out of the military is dealing with the issue in a timely manner instead of letting it fester." Military directors may seek to expedite the dismissal of an underperforming CEO by, for example, advocating for early searches for potential replacements (Schepker et al., 2018) or encouraging directors to search for suitable replacements via their networks (Harris & Helfat, 2007). In summary, these arguments suggest the following hypothesis.

> **Hypothesis.** The negative association between firm performance and CEO dismissal strengthens (becomes more negative) with the board representation of military directors.

3 | METHODOLOGY

3.1 | Sample and data

To test our hypothesis, we sampled manufacturing firms that have primary activity in industries with two-digit SIC codes ranging from 20 to 39 and are listed on US stock exchanges (cf. Wiersema & Zhang, 2011; Zhang, 2006). We tracked firms between 2010 and 2020—a period between the financial crisis and the pandemic crisis, during which exogenous disruptions are unlikely to have impacted the corporate governance system or CEO dismissal rates (e.g., Gao et al., 2017; Shin et al., 2022). Our sample consisted of a panel comprising 7443 firm-year observations involving 865 unique firms. This panel was unbalanced because some firms ceased to exist or were acquired during the sample period and because we omitted observations with missing data.

We also conducted interviews with military directors. Initially, we compiled a list of 200 such directors who served on the boards of the sampled firms in recent years. Leveraging a commercial database called RocketReach, which provides real-time verified email addresses for professionals worldwide, we acquired at least one email address for 144 military directors on this list. Among the 32 directors who responded, 16 declined our invitation, 2 provided brief reflections in writing, and 14 agreed to an interview. We arranged 6 additional interviews using a snowball approach. In total, we interviewed 20 military directors who collectively served the boards of 34 firms.[4] We asked open-ended questions to directors regarding their military service, its potential influence on their approach to corporate governance, and the CEO evaluation and related processes of boards in which they serve. We supplemented these questions with ones that seemed important to pursue during the interview (e.g., inquiries about a particular CEO dismissal case highlighted by the interviewee) (e.g., Bourgeois & Eisenhardt, 1988). All interviews were conducted via Zoom, lasting 30–45 min. This resulted in more than 120 pages of transcribed text. We have used these interview data in the theory and hypothesis section to strengthen our deductive reasoning and enhance the face validity of our arguments. We further utilized interview insights to deepen the interpretation of the results obtained from the supplementary analyses of our quantitative data.

3.2 | Dependent variable: CEO dismissal

To measure our dependent variable, we utilized the database compiled by Gentry et al. (2021), encompassing data on CEO dismissal events between 2010 and 2018. We coded dismissals for 2019 and 2020, adhering to the procedure outlined by Gentry et al. (2021). We measured *CEO dismissal* as a binary variable, taking on the value of 1 if the firm dismissed the CEO in a particular year due to job performance and 0 otherwise, that is, if the firm did not change the CEO; if the CEO departed involuntarily due to illness, death, or policy-related issues; or if the CEO departed voluntarily due to retirement or the pursuit of new opportunities (e.g., Wiersema & Zhang, 2011).[5]

[4]To reduce social desirability bias, we adhered to best practice recommendations for conducting interviews with elite individuals, such as ensuring confidentiality and asking open-ended questions (Solarino & Aguinis, 2021).

[5]When justifying CEO departures, "many companies will indicate that a CEO departed voluntarily," framing a departure, for example, as CEO pursuing new opportunities, "when in fact the departure was forced by the board" (Wiersema & Zhang, 2011, p. 1168). To address a concern that such framing of CEO dismissals may introduce bias in our findings, we examined other involuntary departures resulting from behavioral or policy-related issues and voluntary departures driven by the pursuit of new opportunities (Gentry et al., 2021). When we broadened our definition of CEO dismissal to encompass departures related to behavioral or policy-related issues, we found results consistent with the results reported below. The same held true when we expanded the definition of CEO dismissal to include departures framed as CEO pursuing new opportunities. This mitigates a concern that the firms' strategic framing of CEO departures on the CEO dismissal data could impact our findings.

3.3 | Independent variable: Firm performance

We followed previous studies on CEO dismissal by using return on assets (ROA) as a performance indicator (e.g., Zhang, 2006; Zhang, 2008). Specifically, using data from Compustat, we measured *firm performance* as the firm's ROA minus the median ROA within the firm's primary industry (four-digit SIC code, excluding the focal firm) for a given year.

3.4 | Moderator variable: Military directors

For each outside director in our sample, we sought to identify their employment or service experience with the US Department of Defense, one of its divisions (e.g., US Army, US Navy, Marine Corps, US Air Force, National Guard), or its foreign equivalents (Fedaseyeu et al., 2018; Koch-Bayram & Wernicke, 2018).[6] We did this in three steps. First, we inspected the biographies of directors available in BoardEx, the largest dataset containing biographical and career information about corporate directors. Second, we consulted additional data sources to verify that directors not classified as military directors, according to BoardEx, had indeed never worked or served in the military. We leveraged the US Securities and Exchange Commission (SEC) requirement that firms listed on US stock exchanges disclose director backgrounds in their proxy statements (Krause et al., 2016). We gathered proxy statements for firms corresponding to the sample years via the SEC's Edgar platform. We conducted content analysis on the biographies of directors using the algorithm developed by Adams et al. (2018), along with a dictionary that included keywords such as "military," terms referring to military branches (e.g., "army"), ranks (e.g., "lieutenant"), or services (e.g., "war"). We also read the biographies that included such keywords to minimize coding errors. Third, we examined director profiles in the Notable Names Database, a commercial database that contains biographical information about individuals of public interest (Koch-Bayram & Wernicke, 2018), and conducted keyword searches of news coverage related to directors through LexisUni. These searches utilized strings that combined a director's and a firm's name with the keywords used in the previous step. Following these steps, we identified 598 military directors. Our moderator, *military directors*, is the number of military directors serving on a board each year.

We examined the military backgrounds of these directors. Most military directors for whom we could obtain rank information were officers, with some achieving high ranks, such as general or admiral. Some directors spent most of their professional lives in military service, yet many served for less than a decade. Approximately one-quarter of the military directors were affiliated with each of the following branches: the US Army, US Navy, and US Air Force, with the remaining quarter distributed across other branches.[7] These statistics indicate that the effects of military directors reported in this study are unlikely to be driven solely by officers

[6]Prior research has also classified individuals who served with the US Department of Homeland Security (DHS) as having a military background (e.g., Fedaseyeu et al., 2018), likely due to the shared values of integrity, accountability, and a commitment to "service before self" that are commonly observed also among DHS personnel (see, e.g., https://www.dhs.gov/core-values). Consistent with this prior research, we have also designated individuals as "military directors" if they have served within the DHS. In our dataset, there are 41 directors who meet this criterion, and among them, 13 also possess other types of military backgrounds. Excluding the 28 military directors who only served within the DHS from our sample does not impact our findings.

[7]The detailed statistics can be found in the Online Appendix (Table A2).

appointed to boards due to their high military rank, lengthy military career, or specific military branch of service.

We then compared the personal characteristics of military and nonmilitary directors. Military directors are less likely to be female or foreign (non-American) and more likely to be from older cohorts. They are less likely to have an MBA but more likely to hold another master's or doctoral degree. Military directors are less likely to have skills in specific functional areas, such as finance or operations.[8] This comparison suggests that some unobserved personal characteristics of directors (e.g., conservativeness) may influence their decision to pursue a military career rather than opt for fields such as finance. Such unobserved characteristics could impact decisions, including CEO dismissal decisions, made by firms in which these individuals serve as directors. We address this endogeneity concern in the analyses reported below.

We also compared the characteristics of firms (boards) with and without military directors. Military directors tend to serve larger, more diversified firms and firms generating significant revenue from government contracts. There is no discernible difference in the performance of firms governed by boards with and without military directors. However, notable differences exist in the features of these boards. Boards with military directors are larger, have more directors involved in hiring the current CEO, and are more likely to have a CEO who also serves as a board chair.[9] This comparison suggests that unobservable characteristics of firms (e.g., culture) or their boards (e.g., climate) could influence the appointment of military directors. In the endogeneity analyses below, we also address the concern that such unobservable characteristics could drive our results.

3.5 | Control variables

We controlled for *firm size* since board expectations regarding the CEO increase as the firm grows, potentially leading larger firms to replace their CEOs more frequently than smaller ones (Shen & Cannella, 2002a). We measured size as the ln-transformed number of employees (Zhang, 2006). A firm's *financial leverage* influences the degree to which the board monitors the CEO. We controlled for it using the debt-to-equity ratio (Park et al., 2014). To capture differences in the operating strategies of firms, we controlled for *research and development* (R&D) *intensity*–R&D expenditure scaled by assets, and *capital intensity*–capital expenditure scaled by sales (Hubbard et al., 2017). We also controlled for *diversification*, measured as the number of business segments at the four-digit SIC code level (Wang et al., 2017). We constructed these firm-level controls using Compustat data. Importantly, we controlled for *military contracts*, that is, the proportion of a firm's annual sales generated by contracts with the US Department of Defense. Using the System for Award Management, a database listing procurement contracts awarded by the US government (Flammer, 2018), we collected information on the contracts of sample firms with the US Department of Defense. We aggregated the contract value annually and then divided this value by annual sales.

We next accounted for *board size*, as larger boards are more likely to experience internal disagreements, which could increase the odds of the CEO becoming a casualty of such disputes

[8]Complete results of the *t* tests examining the differences in means between the personal characteristics of military and nonmilitary directors are presented in the Online Appendix (Table A3).

[9]Complete results of the t tests examining the differences in means between characteristics of firms (boards) with and without military directors are presented in the Online Appendix (Table A4).

(Fredrickson et al., 1988). We factored in *board independence* because the representation of outside directors enhances the monitoring of the CEO (Boeker, 1992). Outside directors serving on the board when the CEO is appointed may exhibit a choice-supportive bias toward the CEO, decreasing the likelihood of CEO dismissal (Zorn et al., 2020). Thus, we controlled for the number of *hiring directors* on the board. The data for board-level controls were sourced from BoardEx.

We considered the possibility that a CEO who holds a large portion of stock could influence directors, potentially reducing the likelihood of CEO dismissal (Fredrickson et al., 1988). We quantified *CEO ownership* as the portion of outstanding shares owned by the CEO. A CEO's extended tenure may afford the CEO greater control over the board (Shen & Cannella, 2002a). We measured *CEO tenure* by counting the number of years the CEO held this position. Similarly, a CEO holding the board chair position may wield more power over the board (Wiersema & Zhang, 2011). We created *CEO duality* as a binary variable coded as 1 when the CEO also held a board chair position and 0 otherwise. We also controlled for the impact of *CEO age* on CEO dismissal (Zhang, 2006). To account for potential gender bias in board CEO dismissal decisions (Gupta et al., 2020), we added a dummy variable for *CEO gender*, taking a value of 1 for female CEOs and 0 otherwise. Because the ease of identifying alternative CEO candidates influences board decisions regarding CEO dismissal, we controlled for the availability of an *internal CEO candidate* using a binary variable coded as 1 if an officer other than the CEO held the title of president, COO, or both and 0 otherwise (Zhang, 2006). We collected data for the CEO-level controls from ExecuComp.

To disentangle the impact of macroeconomic factors on CEO dismissal, we added year effects.

3.6 | Estimation method

To test our hypothesis, we used logistic regression since our dependent variable is binary. We estimated models in a firm-year panel including firms that did not experience any CEO dismissals during the study period. We thus used random effects models with standard errors clustered by firm (e.g., Gentry et al., 2021; Hubbard et al., 2017) rather than fixed effects models, as otherwise, all firms without CEO dismissal events were excluded (e.g., Wiersema & Zhang, 2011). The results of the Hausman test supported that the random effects assumption held (Greene, 2000). To establish the temporal precedence of the predictors (e.g., military directors) relative to the predicted effect (CEO dismissal), we lagged all the predictors by 1 year.

4 | RESULTS

Table 1 presents the descriptive statistics and pairwise correlations for our variables. The rate of CEO dismissal is 2.2% (cf. Wang et al., 2017; Zhang, 2006). A standard deviation three times larger than the mean indicates high heterogeneity in firm performance (e.g., Gentry et al., 2021). In the first year of our study period, 27.5% of the boards had one military director, 7.9% had two, and 4.5% had three or more. These percentages are relatively stable over the years, with a slight decline occurring toward the end of the study period. The pairwise correlations among the variables are all lower than 0.60, suggesting that there are no strong correlations between any of the variables (Allison, 1999). The variance inflation factor values

TABLE 1 Descriptive statistics and pairwise correlations.

	Variables	Mean	S.D.	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.	13.	14.	15.	16.	17.
1.	CEO dismissal	0.02	0.15																	
2.	Firm performance	0.06	0.18	−.03																
3.	Military directors	0.53	0.85	−.02	−.03															
4.	Firm size	1.87	1.22	.03	−.05	.28														
5.	Financial leverage	0.60	2.84	.00	−.03	.03	.08													
6.	R&D intensity	0.15	0.79	.00	−.11	−.03	−.19	−.03												
7.	Capital intensity	0.05	0.23	−.01	−.06	.00	−.06	.00	.49											
8.	Diversification	2.59	1.78	.00	−.11	.18	.35	.02	−.12	−.04										
9.	Military contracts	0.01	0.06	−.01	−.03	.31	.11	.03	−.02	−.01	.10									
10.	Board size	10.32	3.35	.02	.05	.29	.72	.07	−.11	−.05	.25	.06								
11.	Board independence	0.78	0.12	.01	−.07	−.06	−.36	.01	.04	.00	−.09	−.05	−.52							
12.	Hiring directors	3.71	2.88	.02	−.03	.17	.30	.04	−.08	−.05	.15	.01	.37	−.06						
13.	CEO ownership	1.78	5.60	−.03	−.02	−.07	−.15	−.02	−.01	.00	−.07	.00	−.16	−.07	−.21					
14.	CEO tenure	8.25	7.11	−.03	.05	−.03	−.13	−.04	.00	.01	−.08	.00	−.15	−.06	−.55	.37				
15.	CEO duality	0.43	0.50	−.03	.02	.10	.21	.00	−.07	−.01	.05	.07	.14	−.12	−.15	.16	.32			
16.	CEO age	56.74	7.22	.02	.03	.01	.06	−.01	−.05	−.01	.01	.04	−.01	−.05	−.18	.18	.44	.27		
17.	CEO gender	0.04	0.20	.02	−.02	.03	.02	.02	.02	.04	−.02	.08	.00	.02	.04	.04	−.06	.00	.00	
18.	Internal CEO candidate	0.28	0.45	−.03	.03	−.01	−.03	.00	−.02	.01	−.05	−.01	−.02	−.06	−.12	.11	.16	.11	.08	−.04

Note: N (firm-year) = 7443. Correlation coefficients with magnitudes greater than | .03 | have p values less than .05.

were less than the critical level of 4 across all the models, suggesting that multicollinearity was not a significant concern (Fox, 1997).

Table 2 presents the results of random effects logistic regressions predicting CEO dismissal. Model 1 includes only control variables, which exhibit effects in the expected direction. Models 2 and 3 introduce components of our interaction term, one at a time. Model 4 is the full model with the interaction term and tests our hypothesis that the negative effect of firm performance on CEO dismissal becomes more pronounced with the number of military directors serving on the board. In line with this hypothesis, the coefficient estimate for firm performance ($b = -1.00$, $p = .04$) (e.g., Park et al., 2020; Zhang, 2008) and the coefficient estimate for the interaction term involving firm performance and military directors ($b = -1.71$, $p = .03$) are negative. To rule out the possibility that this result is driven by a limited number of firms with more than one military director on their boards, we transformed our moderator into a binary variable, taking the value of 1 if at least one military director served on a firm's board in a specific year and 0 otherwise. In Model 5, we employ this dummy alternative and observe consistent results ($b = -.93$, $p = .05$; $b = -2.53$, $p = .00$).

TABLE 2 Random effects logistic regressions predicting CEO dismissal.

	Model 1		**Model 2**		**Model 3**		**Model 4**		**Model 5**	
Variables	***b***	***p***	***b***	***p***	***b***	***p***	***b***	***p***	***b***	***p***
Firm performance × Military directors							−1.71	.03	−2.53	.00
Military directors					−.25	.03	−.22	.05	−.41	.02
Firm performance			−1.28	.00	−1.29	.00	−1.00	.04	−.93	.05
Firm size	.17	.09	.15	.15	.17	.10	.17	.10	.17	.09
Financial leverage	−.01	.64	−.01	.61	−.01	.62	−.01	.60	−.01	.60
R&D intensity	.07	.52	.02	.89	.02	.86	.02	.86	.01	.90
Capital intensity	−1.14	.39	−1.08	.38	−1.08	.38	−1.03	.40	−.99	.41
Diversification	−.04	.42	−.05	.32	−.05	.38	−.05	.32	−.05	.34
Military contracts	−3.33	.22	−3.38	.22	−2.06	.41	−1.95	.42	−2.73	.27
Board size	.03	.43	.04	.30	.06	.18	.06	.16	.06	.16
Board independence	1.20	.18	1.11	.21	1.36	.13	1.37	.13	1.36	.13
Hiring directors	−.03	.36	−.03	.39	−.02	.48	−.02	.49	−.02	.48
CEO ownership	−.04	.21	−.05	.20	−.05	.20	−.05	.20	−.04	.21
CEO tenure	−.03	.15	−.03	.18	−.03	.20	−.03	.21	−.03	.21
CEO duality	−.41	.02	−.39	.03	−.39	.03	−.37	.04	−.37	.04
CEO age	.04	.00	.04	.00	.04	.00	.04	.00	.04	.00
CEO gender	.41	.23	.40	.23	.40	.23	.40	.24	.40	.24
Internal CEO candidate	−.32	.12	−.32	.12	−.32	.12	−.32	.12	−.32	.12
Intercept	−7.17	.00	−7.16	.00	−7.50	.00	−7.52	.00	−7.47	.00
N (firm-years)	7443		7443		7443		7443		7443	
Log-likelihood	−766.02		−761.24		−758.75		−756.84		−755.47	

Note: Unstandardized coefficients (b) are reported with p values. Two-tailed tests for all coefficients. Year effects are included in all the models.

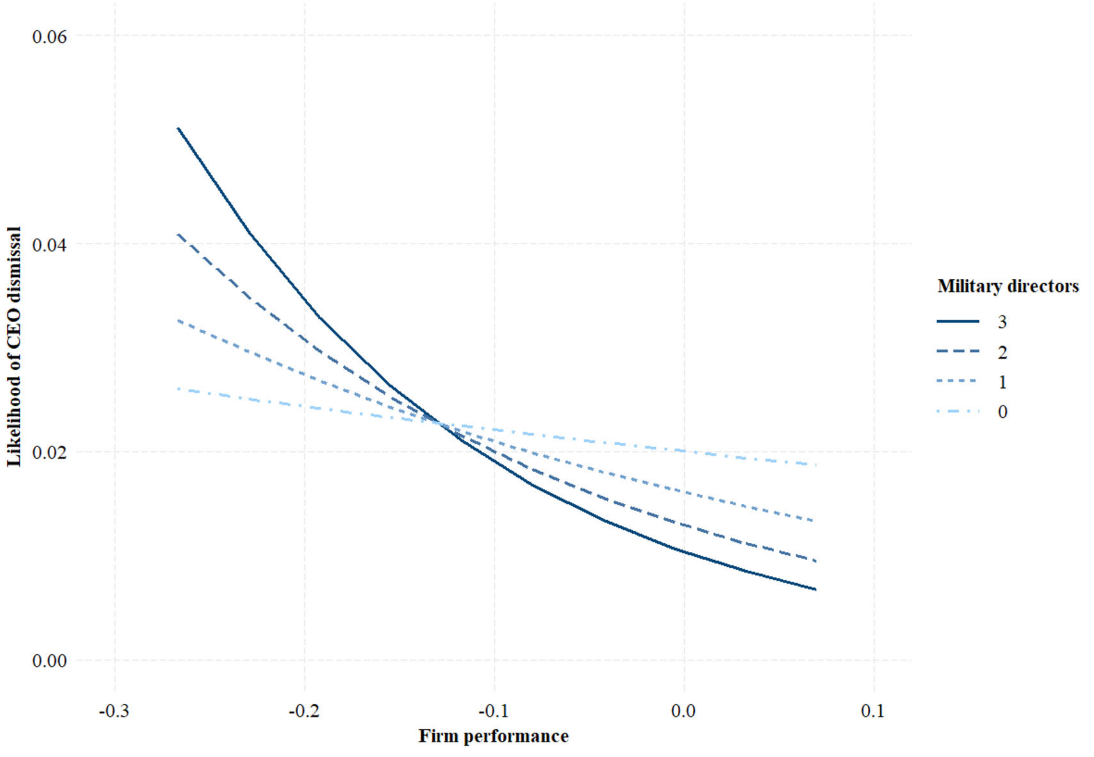

FIGURE 1 Interaction effect of *firm performance* and *military directors* on the likelihood of *CEO dismissal*.

To facilitate interpretation, we depicted the link between firm performance and CEO dismissal (Model 4) for conditions under which 0, 1, 2, or 3 military directors serve on the board in Figure 1. This figure shows that military directors on the board do not increase the likelihood of CEO dismissal when performance is at or slightly below the sample average. However, as performance declines further below average, especially by more than one standard deviation, the influence of military directors becomes substantial. For instance, when performance is two standard deviations below the mean, the likelihood of CEO dismissal is 2.1% in the absence of military directors, while this likelihood is 2.9, 3.9, and 5.2% when 1, 2, and 3 military directors serve on the board, respectively. Increasing the number of military directors on the board from 0 to 1 (or to 2 or 3) is associated with a 34.5% (81.6%, 144.8%) increase in the likelihood of CEO dismissal. In summary, these findings are consistent with our hypothesis.[10]

[10]In CEO dismissal, boards may consider market performance alongside operational performance. We explored this possibility by estimating models with Tobin's Q—median industry-adjusted (based on the four-digit SIC) market value of annual assets divided by the book value of assets—as a measure of market performance (e.g., Shin et al., 2022; Yi et al., 2020). We found that Tobin's Q is negatively associated with CEO dismissal. However, military directors did not moderate this effect, which may suggest that boards with military directors put a stronger emphasis on operational performance than market performance when evaluating CEOs. This preference could be due to the belief that operational performance is more within the CEO's control (e.g., Keil et al., 2022; Shen & Cannella, 2002b) and, therefore, provides a more reliable basis for CEO evaluations.

5 | ENDOGENEITY ANALYSES

5.1 | Selection into military service: Endogeneity from unobserved director characteristics

The selection of individuals into the military may not be random. Therefore, our results could reflect unobserved personal characteristics of directors that may be correlated with their military service and their tendency to hold poorly performing CEOs accountable through dismissal. To address this concern, we employed a two-stage residual inclusion estimation method, which is particularly suitable for correcting bias in nonlinear models involving binary dependent variables (Rivers & Vuong, 1988; Terza et al., 2008) and models where the endogenous variable interacts with other variables (Petrin & Train, 2010; Wooldridge, 2015), as in our full model. In this approach, endogeneity is addressed by including the residuals of the first-stage regression predicting an endogenous regressor as an additional predictor in the second-stage regression, with residuals substituting for unobserved confounders that could influence the endogenous regressor (Terza et al., 2008; Wooldridge, 2015). Our first-stage Poisson model predicts how many directors serving on a board in a given year have military background and includes firm performance, all control variables, and two exclusion restrictions. In choosing exclusion restrictions, we leveraged the fact that the probability of being drafted to serve in the military varies by birth cohort due to the heightened demand for military personnel during wartime periods (Angrist & Krueger, 1994; Benmelech & Frydman, 2015). Labor economics research suggests that approximately two-thirds of age-eligible American men born between 1928 and 1936 served in the Korean War, and that the majority of the men who served in the Vietnam War were born between 1950 and 1953 (Angrist, 1990; Bound & Turner, 2002). We exploited this exogenous variation in the propensity to serve in the military, as we created two birth cohort dummy variables. These dummies were assigned a value of 1 if at least one director serving on a board was born (a) between 1928 and 1936, making them likely to be drafted during the *Korean War*, or (b) between 1950 and 1953, making them likely to be drafted during the *Vietnam War*, and 0 otherwise (Koch-Bayram & Wernicke, 2018). In the first stage (Table 3, Model 1), the two dummies strongly predicted the number of military directors on a board ($b = .41$, $p = .00$; $b = .17$, $p = .01$) and were not correlated with residuals from the second stage, satisfying the exclusion restriction criteria (Wooldridge, 2015). In the second stage (Table 3, Model 2), after including *residuals* from the first stage as an additional control variable, the coefficients for firm performance ($b = -.96$, $p = .03$) and the interaction term ($b = -1.72$, $p = .03$) remained negative and predicted CEO dismissal. After accounting for potential endogeneity from unobserved director characteristics, our hypothesis remained supported.

5.2 | Appointment of military directors: Endogeneity from unobserved firm characteristics

The appointment of military directors to boards may also not be random. To address endogeneity resulting from unobserved characteristics of firms (boards), we also employed a two-stage residual inclusion estimation method. This time, residuals from the first-stage model help control for unobserved characteristics of a firm (board) that may simultaneously impact the appointment of military directors to a firm's board and CEO dismissal. When selecting exclusion restrictions for this first-stage model, we relied on military science research suggesting that

TABLE 3 Endogeneity analyses.

	Selection into military service				**Appointment of military directors**			
	Model 1 (first stage)		**Model 2 (second stage)**		**Model 3 (first stage)**		**Model 4 (second stage)**	
	DV = military directors		**DV = CEO dismissal**		**DV = military directors**		**DV = CEO dismissal**	
Variables	***b***	***p***	***b***	***p***	***b***	***p***	***b***	***p***
Firm performance × Military directors			−1.72	.03			−1.74	.03
Military directors			.50	.06			.46	.14
Firm performance	−.24	.30	−.96	.03	−.23	.33	−.97	.03
Firm size	.14	.01	.13	.22	.13	.01	.13	.20
Financial leverage	.00	.75	−.01	.63	.00	.80	−.01	.62
R&D intensity	.02	.64	.01	.93	.02	.63	.01	.91
Capital intensity	.09	.08	−1.09	.38	.11	.05	−1.09	.38
Diversification	.04	.02	−.07	.20	.05	.01	−.07	.21
Military contracts	2.29	.00	−4.85	.07	2.19	.00	−4.72	.12
Board size	.11	.00	.02	.66	.11	.00	.02	.64
Board independence	2.07	.00	.68	.48	2.14	.00	.72	.47
Hiring directors	.04	.00	−.04	.22	.05	.00	−.04	.24
CEO ownership	−.01	.18	−.04	.21	−.01	.25	−.04	.22
CEO tenure	.02	.01	−.04	.11	.02	.00	−.04	.12
CEO duality	.09	.26	−.40	.02	.08	.37	−.40	.03
CEO age	−.01	.27	.04	.00	−.01	.52	.04	.00
CEO gender	−.02	.93	.42	.22	−.03	.88	.41	.23
Internal CEO candidate	.01	.83	−.33	.11	.03	.66	−.33	.11
Korean War	.41	.00						
Vietnam War	.17	.01						
Active duty and reserve service					.01	.03		
Military bases					.07	.01		
Residuals			−.61	.01			−.57	.03
Intercept	−3.92	.00	−7.34	.00	−4.10	.00	−7.01	.00
N (firm-years)	7443		7443		7443		7443	
Log-likelihood	−6642.98		−754.56		−6698.07		−755.03	

Note: Unstandardized coefficients (*b*) are reported with *p* values. Two-tailed tests for all coefficients. Year effects are included in all the models.

individuals and organizations embedded in military communities share military-like values (Hall, 2012; Law & Mills, 2017). Based on this research, we expected firms in militarized communities to be more inclined to appoint military directors to their boards than other firms.

We created two proxies for a firm's embeddedness in such a community based on the state in which the firm's headquarters were located: (a) the number of military members (in thousands) in *active duty and reserve service* (obtained from the Defense Manpower Data Center) and (b) the number of *military bases* (obtained from military.com). These variables were positively associated with the board representation of military directors in the first-stage model (Table 3, Model 3: $b = .01$, $p = .03$; $b = .07$, $p = .01$) and were not correlated with residuals from the second stage, satisfying the exclusion restriction criteria (Wooldridge, 2015). In the second stage (Table 3, Model 4), which included *residuals* from the first stage as an additional control variable, the coefficient estimates for firm performance ($b = -.97$, $p = .03$) and the interaction term ($b = -1.74$, $p = .03$) remained negative and predictive of CEO dismissal. After accounting for potential endogeneity from unobserved characteristics of firms (boards), our hypothesis remained supported.

6 | SUPPLEMENTARY ANALYSES OF BOUNDARY CONDITIONS

6.1 | Board role of military directors

Does the influence of military directors on CEO dismissal depend on their role on the board? When military directors hold key leadership roles, such as board chairs or lead directors, their influence on CEO dismissal may be more substantial. However, we found no evidence to support this notion, likely because in our dataset, military directors only served as chairs and lead directors in 2.2 and 3.6% of the observations, respectively (6.0 and 9.7% of the observations corresponding to firm-years with military directors). We also checked whether military directors served on the nominating committee, which typically leads the CEO evaluation process (Zhang, 2008). This was the case for 16.0% of the observations (44.3% of the observations corresponded to firm-years with military directors). We created two variables by separating military directors into those serving and not serving on the nominating committee, each of which we then interacted with firm performance. In Model 1 of Table 4, the two interaction coefficients indicate that military directors increase the likelihood of dismissing underperforming CEOs irrespective of whether ($b = -2.66$, $p = .02$) or not ($b = -1.81$, $p = .09$) they serve on the nominating committee. While a formal test for the difference in the significance of these two interaction coefficients showed no significant difference, the practical significance of the effect of military directors appears greater when they serve on the nominating committee, likely due to their greater direct involvement in CEO evaluations. Indeed, as one military director explained, "the nominating committee takes the lead on CEO evaluation and generates the evaluation report; … only after the nominating committee prepares the report, we [directors] have a frank discussion about the CEO in the board meeting." These results suggest that the influence of military directors on CEO dismissal does not depend upon the role they play on the board; however, they may have more impact when they serve on the nominating committee.

6.2 | CEO power

Can military directors prompt boards to dismiss CEOs who hold significant power? To address this question, we first tested our hypothesis in a subsample corresponding to a condition of high CEO power, determined based on the above-median value of the composite index that

TABLE 4 Supplementary analyses of boundary conditions.

	Nominating committee		Powerful CEO (composite)		Powerful CEO (ownership)		Powerful CEO (tenure)		Powerful CEO (duality)	
	Model 1		Model 2		Model 3		Model 4		Model 5	
	DV = CEO dismissal		DV = CEO dismissal		DV = CEO dismissal		DV = CEO dismissal		DV = CEO dismissal	
Variables	***b***	***p***	***b***	***p***	***b***	***p***	***b***	***p***	***b***	***p***
Firm performance × Military directors on NC	−2.66	.02								
Firm performance × Military directors not on NC	−1.81	.09								
Military directors on NC	−.30	.20								
Military directors not on NC	−.47	.04								
Firm performance × Military directors			−2.88	.04	−2.35	.01	−3.35	.00	−2.74	.10
Military directors			−.15	.36	−.14	.46	−.13	.41	−.09	.57
Firm performance	−.73	.14	−1.01	.36	−1.63	.00	−.31	.73	−1.30	.17
Firm size	.17	.09	.14	.42	−.26	.18	.05	.77	.05	.78
Financial leverage	−.01	.59	.01	.82	−.05	.18	−.03	.34	.05	.20
R&D intensity	−.10	.65	−.58	.45	−.23	.16	−.07	.68	−.35	.39
Capital intensity	−.63	.60	.69	.45	−1.07	.67	−.07	.90	.48	.40
Diversification	−.05	.36	.05	.54	−.20	.09	−.09	.29	.06	.44
Military contracts	−2.73	.27	−1.17	.53	−.05	.99	−1.30	.72	−1.41	.46
Board size	.06	.16	.12	.08	.09	.18	.15	.02	.15	.04
Board independence	1.41	.12	1.33	.29	2.78	.06	1.49	.20	1.99	.14
Hiring directors	−.03	.44	−.04	.43	.07	.21	.09	.11	−.07	.25
CEO ownership	−.04	.20	−.03	.26	−.04	.26	−.04	.30	−.02	.45
CEO tenure	−.03	.21	.00	.94	.00	.99	.01	.77	−.01	.82
CEO duality	−.39	.03	.37	.44	−.26	.31	−.20	.42		
CEO age	.04	.00	.04	.08	.05	.02	.04	.07	.04	.05
CEO gender	.41	.23	.29	.59	.29	.61	.77	.16	.39	.48
Internal CEO candidate	−.33	.11	−.07	.82	−.62	.06	−.15	.56	−.18	.56
Intercept	−7.51	.00	−9.03	.00	−9.15	.00	−9.93	.00	−9.52	.00
N (firm-years)	7443		3860		3878		4123		3236	
Log-likelihood	−754.56		−302.46		−303.39		−352.52		−270.55	

Note: NC = nominating committee. Unstandardized coefficients (*b*) are reported with *p* values. Two-tailed tests for all coefficients. Year effects are included in all the models.

combines standardized values of CEO ownership, CEO tenure, and CEO duality. The results of Model 2 in Table 4 indicate that performance does not predict the dismissal of powerful CEOs ($b = -1.01$, $p = .36$); however, it does so in the presence of military directors ($b = -2.88$, $p = .04$). Subsequently, we extended our analyses to subsamples based on individual indicators of CEO power. In Models 3 and 4, we observed similar results to our main results for CEOs whose power emanates from substantial stock ownership ($b = -1.63$, $p = .00$; $b = -2.35$, $p = .01$) or from lengthy tenure as CEO ($b = -.31$, $p = .73$; $b = -3.35$, $p = .00$), respectively. However, the results did not support our hypothesis in the context of CEOs who also hold the position of board chair (Model 5: $b = -1.30$, $p = .17$; $b = -2.74$, $p = .10$). As one military director explained, "When there is one person acting as the CEO and board chair, that gives them a very powerful position, but it also makes them fully accountable. Such CEOs are not held accountable by the board; they are held accountable by the external parties." Overall, these results suggest that while military directors may trigger the dismissal of powerful (stock owner or long-tenured) CEOs, CEO duality is a boundary condition for the influence of military directors on CEO dismissal.

7 | DISCUSSION

In this study, we address a recent call to "depart from agency-centered or situational explanations" of CEO dismissal (Park et al., 2020: 109) by examining directors' military backgrounds as a critical determinant of the heterogeneity in CEO dismissal across firms. Prior studies investigating why some boards dismiss underperforming CEOs while others do not have overlooked the influence of military backgrounds despite it being frequently present on boards of public firms (e.g., Fedaseyeu et al., 2018; Koch-Bayram & Wernicke, 2018; Marino, 2015). Our argument, supported by empirical evidence, suggests that directors with military backgrounds uniquely influence a board's approach to executive accountability, subsequently affecting the removal of poorly performing CEOs. This finding enriches our understanding of the factors that drive CEO dismissal and paves the way for further investigation into the effects of directors' backgrounds on CEO dismissal. This line of inquiry is important because directors' backgrounds are multifaceted, varying along a wide range of demographic, business, and nonbusiness characteristics (Johnson et al., 2013), many of which can influence their approach to CEO accountability and, ultimately, their decisions on CEO dismissal. For instance, regarding demographic background, prior research has shown that directors with Ivy League education highly value R&D (Dalziel et al., 2011). Consequently, such directors may be less inclined to dismiss a CEO who underperforms but is committed to investing in R&D. Similarly, in terms of professional backgrounds, prior research has shown that directors with financial backgrounds are highly sensitive to CEOs' grandiose actions, such as large acquisitions (Jensen & Zajac, 2004). Such directors may prompt boards to hold the CEO strictly accountable for the failure of such actions. Therefore, a fruitful direction for future studies on CEO dismissal is to systematically examine various types of director backgrounds.

Prior studies have emphasized that CEOs with military backgrounds, owing to their integrity, are less inclined to engage in fraudulent activities (Benmelech & Frydman, 2015; Koch-Bayram & Wernicke, 2018). We complement this research by underscoring that a military background is also linked to values and beliefs regarding accountability, shaping how directors approach the accountability of executives. Given the unique values and beliefs held by military directors, it is plausible that their impact extends beyond the context of CEO dismissal induced by performance-related issues. For example, as a logical extension, future research should investigate whether the presence of military directors encourages boards to hold CEOs more accountable through dismissal in cases of financial misconduct (see also Park et al., 2020). Furthermore, recent research has revealed that even though boards are expected to act fairly, they display gender bias (Gupta et al., 2020) and outgroup bias (Thams & Rickley, 2024) when deciding upon CEO dismissal. It would be interesting to examine whether military directors, guided by their values and beliefs, help mitigate these biases. This exploration can also be extended beyond the context of CEO dismissal. Our interviews suggest that military directors often employ a structured approach to performance evaluations, another crucial element in ensuring CEO accountability. This raises the possibility that boards with military directors may be more likely to link CEO compensation tightly to their performance. Future studies can explore this possibility.

The results from our supplementary analyses, coupled with insights gathered through interviews with military directors, suggest that the influence of a director's background on CEO dismissal might be contingent upon the board structure and the composition of its committees. For example, we find that military directors exert less influence on CEO dismissal on boards featuring dual CEO-chairperson roles. In contrast, when military directors serve on a nominating committee, their impact on CEO dismissal is more pronounced. While our study was not explicitly designed to unearth the interplay between director backgrounds and contingency factors, these preliminary findings imply the need for a more robust theoretical integration that considers such an interplay of director backgrounds and the structure of boards and their committees. Such an integrated approach will be essential for obtaining a more complete understanding of CEO dismissal.

The impact of military directors on board decisions should also be analyzed in conjunction with the other characteristics of directors. Recent research suggests that directors with specific ideologies, such as political liberalism, are more inclined to attribute performance shortfalls to external factors than to the CEOs themselves (Park et al., 2020). It would be intriguing to explore the outcomes of boardroom processes involving such directors and military directors. Similarly, recent qualitative research points out that female directors place greater emphasis on accountability during board meetings than do their male counterparts (Wiersema & Mors, 2024). Hence, it would be interesting to determine whether and under what conditions female directors and military directors complement or substitute each other in directing the board's attention toward executive accountability. In developing studies along these lines, researchers could draw not only from military science, as we did in this study, but also from the wealth of research on accountability in fields such as social psychology, politics, and justice (Lerner & Tetlock, 1999; Tetlock, 1985).

In addition to influencing the board's approach to executive accountability, military directors can impact the firms they oversee in other significant ways. Previous research has demonstrated that CEOs encounter substantial challenges during crises, often leading directors to exit the company (Withers et al., 2012). Therefore, it is worth investigating whether military directors exhibit a greater propensity than other directors to stand by the company during a crisis, share responsibility for strategic decisions with the CEO, and contribute to the firm's resilience in the face of adversity. As one military director we interviewed said, "Firms are looking for people who will make the right decision in somewhat painful situations, and every firm faces numerous those different situations throughout its life." Exploring the impact of military directors on the decisions made by firms during turbulent times could provide valuable insights.

More broadly, since directors' backgrounds and accompanying values and beliefs strongly "reflect directors' assumptions about how to achieve effective corporate governance" (Gupta et al., 2022, p. 1476), future research should investigate how boards align their decisions with the values and beliefs of military directors. In undertaking this investigation, it is crucial to recognize that while military directors on boards may offer advantages, there may also be associated costs. One potential advantage, as we also observe in our data, is that boards comprising military directors tend to be more protective of well-performing CEOs, diminishing the likelihood of their dismissal. Additionally, research in military science has debated the extent to which military decision-making is procedurally rational (Shortland et al., 2020), which suggests that military directors may shape the comprehensiveness of board decision-making processes (Pavićević et al., 2023; Pavićević & Keil, 2021). As a potential disadvantage, we observed that the influence of military directors on board decisions strengthens with increased board representation, which may indicate a potentially heightened susceptibility to groupthink within the board, a phenomenon often associated with adverse outcomes (Janis, 1982). Additionally, if many military directors encourage boards to hold CEOs accountable even for temporary decreases in performance caused by external factors, this tendency could lead to frequent CEO dismissal. However, frequent CEO turnover is generally not beneficial for firms (e.g., Schepker et al., 2017). Hence, future research should strive to present a balanced view of the potential benefits and costs of having military directors serve on the board.

7.1 | Limitations

Directors are not explicitly requested to disclose their military background in any of the data sources we exploited. Although we used multiple data sources to mitigate the risk of omitting directors' military backgrounds during our coding process, we cannot fully rule out the possibility of measurement error in our moderator variable. Relatedly, we posited that military directors contribute accountability values and beliefs to the board, enhancing the board's readiness to enforce CEO accountability in cases of subpar performance. To test this assertion empirically, however, we did not directly measure these values and beliefs; instead, we inferred them from the directors' military backgrounds. Although similar nonintrusive approaches have been used in previous research on CEO dismissal (e.g., Park et al., 2020), future studies should attempt to validate our findings by accessing primary data related to values and beliefs. This research is also important because directors with other backgrounds, such as healthcare, may harbor strong accountability values and beliefs due to the nature of their work.

In boardrooms, "accountability is realized through a wide range of behaviors—challenging, questioning, probing, discussing, testing, informing, debating and exploring" (Roberts et al., 2005, p. 12). While we enhanced our theorizing by conducting a series of interviews, which provided insights into how military directors may engage in these behaviors to hold CEOs accountable for poor performance, our data did not allow us to directly observe the specific content of board meetings or the actions of individual directors. Hence, future research should attempt to collect transcripts from board meetings or conduct interviews with directors during periods of poor performance, enabling closer examination of how boards realize executive accountability.

We examined CEO dismissal within US firms. The level of CEO accountability for poor performance varies by country (Crossland & Chen, 2013). This variation may influence the strength of the relationship between military directors and CEO dismissal. Future research should explore this possibility. The length and nature (voluntary vs. mandatory) of military service can also differ among countries, resulting in variations in the values and beliefs held by military directors. While some studies have suggested that military culture is universal (Soeters, 1997), further investigation is necessary to understand the impact of military directors on CEO dismissal in non-US firms.

8 | CONCLUSION

This study explains how military directors influence CEO dismissal. Our primary contention is that military directors exhibit a strong sense of accountability, prompting their boards to hold the CEO accountable via dismissal when firm performance is low. Through a combination of quantitative analysis of CEO dismissals and qualitative insights derived from interviews with military directors, we present evidence supporting this argument. From a theoretical perspective, we hope this study inspires scholars to delve more deeply into director backgrounds as they strive to develop an accountability perspective on CEO dismissal. From a practical standpoint, we underscore that integrating the accountability principles cultivated through military service into corporate governance could be valuable in holding executives accountable for their actions and performance.

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DATA AVAILABILITY STATEMENT

The data that support the findings of this study are available from commercial vendors such as BoardEx, US Executive Compensation Database, and Compustat Database, as well as public sources such as the System for Award Management (SAM) of the US Government and the electronic filing system (EDGAR) of the US Securities and Exchange Commission.

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SUPPORTING INFORMATION

Additional supporting information can be found online in the Supporting Information section at the end of this article.

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