**SUMMARY KEYWORDS**

behaviour, ceo, military, data, organisation, option, granted, observe, covering, served, disadvantages, datasets, fraudulent, implication, statistical probability, roughly, values, yearly earnings, data sets, instilled

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The context is basically that we wanted to understand the drivers serves involvement in fraudulent behaviour, unethical behaviour broadly defined a bit better. And we do have some understanding what drives such behaviour. But the literature is not really clear with regards to how much that is potentially caused by those who actually lead organisation, people in the back alone, like the CEO, and what this upper echelon theory predicts is that whoever leaves an organisation has an impact on organisational outcomes such as fraud. So it matters who these people are and what the character and what the values are, and what they've used. We use two data sets. And we do that because each of the data sets has certain advantages and disadvantages. But both data sets taken together overcome the disadvantages of the other data set. Right. So we use one data set which is from which especially looking at alleged fraudulent behaviour of companies, so those companies have been prosecuted by the US CC for violating or cooking the books is to say either quarterly earnings or yearly earnings. So is this engaged in fraudulent financial behaviour. And then the second data set is a data set on grants.

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So grants options and CEOs get they regularly get option grants. And basically what we look at is whether or not the option grants were lucky. So lucky option rents between certain co has been granted options on the day of the month was the was the share price was the lowest. That can happen, right? That can happen that's CEOs lucky and get the options granted on the day with a lower share price. But there's a statistical probability how often that will happen. And what we observe is it happens more often than you would expect, if that would have been distributed randomly. So there seems to be able to be called backdating. So that's why after options have been granted that the CEO is To go back and change the date when the option has to be granted to the date where the stock price has been lower, that's what we call monkey drank or option acting. And the two datasets, they show very similar results that they have, as I mentioned before, they have disadvantages. The disadvantages of the first data set of actual bought behaviour is that it could be that some CEOs are just better in covering the sign up. And it could be that military CEOs are just better and covering it up. So this data set just shows us thought which has been uncovered. Okay, the second data set, the advantage is just covering spectating is impossible.

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So we know I mean, this public ESP announced when the options went has been granted. But we don't know if the option is actually been backdated or to see us just be lacking. The option has been granted on the day was the lowest. What we find in our data is probably 50% of the Option grants were likely tax data. So we don't know which 60% of the right so but if you think about both datasets putting both datasets together for one photo, then one feels to be better than covering up for the second one, there's the covering up, but we don't know which of the instances we observe is actually fought in which the which one is luck. But putting them both together actually allows us to overcome the disadvantages or forces. So status, just to give you a little bit of data here. So for the first data set, we actually has 15% of the CEOs in the data set from the military. And we look at data here from 1998 to 2011.

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And for the second data set, we look at the shorter time period 1996 to 2005, and we have roughly similar amount of CO susceptibilities. So basically what we see is if the CEO has served in the military before becoming a co CEO, we see that the firm is less likely to be involved before Alright, so the chances of observing a company Which is headed by a military CEO is roughly something in the 60% sentence right lower. So 63% for lucky grant, if you have a military CEO former military shoe, the chance the probability of observing lucky option rent is roughly three percentage points lower. So it actually shows that He also served in the military or organisational structure, the military is less likely to be involved in financial and what are the implications for that? So one thing we show is a that the person heading the organisation matters, right, and the character of the person heading the organisation with them matters. And what we argue and show in this paper is that the service in the military has instilled the individuals with a certain mindset characteristics or values, the values are that you follow rules and regulations, you don't like them. And that these these values are instilled during the trading in the military and Become that basically imprinted on the personality of sorts. So once they leave the military and become managers, it becomes yours, it's still part of their personality. And so it guides their daily behaviour. And so they're less likely to break accounting rules in this system. What's the implication for firms is when they screen for future employees to personnel. So if you think about you know, who to hire for the CEO position tends to play a role what what character those person has the seat to play a role, you could probably take service in the military as a signal for behaviour which is inclined to stick more to rules and regulations, behaving more in line of what we expect of ethical behaviour.