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Research on executive military experience, financing constraints and earnings management behavior based on empirical evidence of Chinese listed companies

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Abstract. The frequent occurrence of corporate financial fraud undermines market trust, while the rising proportion of military background executives may exert unique impacts on financial compliance through their disciplinary and risk-averse characteristics. This study examines the mechanism by which executives' military service history influences earnings management behavior in Chinese A-share listed companies from 2010 to 2024, with particular focus on the mediating role of financing constraints. By constructing a self-developed database incorporating executive backgrounds, financing constraints, and earnings management indicators, we utilized Python technology to extract military service data, applied the KZ Index to measure financing constraints, calculated earnings management levels using the Modified Jones Model, and conducted empirical analysis via Stata software. The findings reveal that military service significantly suppresses earnings management behavior. Financing constraints partially mediate this relationship—specifically, military service mitigates financing constraints to reduce earnings management intensity, with more pronounced inhibitory effects observed among executives who served in the military during periods of high financing constraints. These conclusions provide new perspectives for understanding how executive heterogeneity influences corporate financial behaviors, offering practical insights for listed companies to improve corporate governance structures and regulatory authorities to optimize market supervision mechanisms.

Keywords: executive military service, earnings management, financing constraints, corporate governance, listed companies

1. Introduction

Under the leadership of the Communist Party of China, the People's Liberation Army (PLA) serves as a vital force for national development. Beyond safeguarding defense security, its cultivated ethos permeates various social sectors. Military-trained professionals who transition into corporate leadership act as cultural bridges between military and business practices, infusing corporate governance with a spiritual foundation rooted in their military heritage. These executives integrate core military values into corporate management, shaping corporate cultures that align with national development goals while emphasizing compliance practices to support standardized operations.

The recurring financial scandals caused by earnings management in domestic and international capital markets underscore the critical importance of curbing such practices to maintain market integrity. As China enters a phase of high-quality economic development, some enterprises still engage in earnings management through manipulated accounting data to embellish financial statements, disrupting investor decision-making and market order. Whether military-trained executives can effectively curb earnings management through their unique values and management styles has become a crucial research question. In-depth exploration of these executives' mechanisms for restraining earnings management not only enriches corporate governance theories but also provides practical insights for optimizing corporate structures and enhancing capital market transparency. Thus, understanding how military-trained executives influence corporate earnings management behaviors and the underlying logic behind their restraint proves vital for promoting healthy enterprise development.

This study expands the application scenarios of classical theories at the theoretical level, enriching their substantive content. Under the theory of the top echelon, existing research predominantly focuses on how executive education and career experiences influence corporate decision-making. This study incorporates military backgrounds into executives 'profiles to reveal the logic behind how military traits affect corporate financial behavior, providing new evidence for research on "non-traditional career experiences." From the perspective of imprint theory, this study elucidates how military culture shapes executives' values,

verifies that military imprints suppress earnings management, and expands the theoretical application in corporate financial governance. Simultaneously, it offers micro-level explanations for information asymmetry theory and principal-agent theory. Based on information asymmetry theory, military-background executives reduce information gaps between enterprises and stakeholders, refining the theoretical chain of "executive traits influencing information transmission efficiency." Under principal-agent theory, it demonstrates how military-background executives mitigate conflicts of interest and reduce earnings manipulation, offering a "executive trait governance" perspective that deepens understanding of non-institutional corporate governance mechanisms.

As an outstanding group nurtured by the Party and the state, military personnel have consistently demonstrated responsibility and dedication through their loyalty, discipline, and commitment to missions. The military spirit they uphold across various industries has become a valuable spiritual asset for society.In corporate governance, executives with military backgrounds bring a stronger awareness of compliance and a sense of responsibility, presenting potential solutions to financial irregularities. As a result, studying their influence on earnings management has high practical value. This not only responds to the society's concerns about the contributions of military personnel after their transition to civilian jobs but also offers practical references for the optimization of corporate governance.

Based on empirical data analysis, this study systematically verifies the negative correlation between executive military backgrounds and corporate earnings management behavior through large-sample regression and robustness tests. This argumentation process not only provides quantitative evidence for the proposition that "military background inhibits earnings management" but also clarifies the transmission path of their relationship through mechanism testing, offering reliable evidence for understanding the causal connection between executive traits and financial behaviors.

The research hold direct practical significance for Chinese listed companies. For enterprises, the findings can guide the selection of executives and optimization of governance structures, encouraging companies to prioritize the positive role of executive traits in compliant operations. For regulators, the study reveals the unique value of military background executives in curbing financial fraud, providing decision support for formulating differentiated regulatory policies and improving corporate governance evaluation systems. For investors, the conclusions help identify companies with governance advantages, enhancing the scientific basis for investment decisions. Finally, the research helps optimize the allocation of capital market resources by strengthening corporate financial transparency, and injects new momentum into the high-quality development of China's listed companies.

2. Literature review

Earnings management refers to the practice of financial statement adjustments made by corporate executives through accounting policy selection and transaction arrangements to achieve specific objectives. Early research primarily focused on motivations for earnings management, including contractual incentives, capital market considerations, and political cost factors [1]. Recent studies have explored how executive characteristics influence earnings management, revealing significant correlations between gender, age, educational background, and the extent of earnings manipulation [2]. For instance, female executives tend to adopt more conservative accounting policies, thereby reducing corporate earnings management [3]. Additionally, executive overconfidence has been shown to increase earnings management intensity [4]. However, existing research has not sufficiently addressed the unique role of military experience in executive backgrounds.

The Upper Echelons Theory posits that executive personal traits shape corporate strategic decisions and financial behaviors through cognitive patterns and value systems [5]. Studies indicate that executives' professional experiences and educational backgrounds significantly impact corporate investment decisions, financing strategies, and risk management practices [6]. For instance, executives with financial industry backgrounds tend to adopt more conservative financing strategies, while those with overseas experience prioritize corporate internationalization [7]. Additionally, military service experience significantly influences corporate financial behavior. Military-trained executives demonstrate stronger emphasis on compliance and risk management, thereby reducing financial risks [8].

Financing constraints refer to capital availability limitations during fundraising processes, typically manifested as external financing costs exceeding internal financing costs [9]. Research indicates that financing constraints substantially impact earnings management practices. In high-constraint environments, management may employ earnings management to embellish financial statements for investor attraction [10]. However, executive personality traits mediate this relationship. Risk-averse executives might exercise greater caution in earnings management under stringent financing constraints [11]. Furthermore, military-trained executives' risk-averse tendencies may lead them to adopt more conservative financial strategies when facing tight funding conditions, thereby reducing earnings management intensity.

Current research has established a solid foundation for understanding the relationship between executive characteristics, financing constraints, and earnings management, yet theoretical gaps persist [12]. First, research perspectives remain limited: governance effects of non-economic experiences such as military backgrounds have not been fully explored, and their associated traits like discipline and rule awareness lack systematic examination of their correlation with financial compliance behaviors.

Second, the mechanism chain remains fragmented: the specific pathways through which executive backgrounds influence earnings management have not been clarified, and the dual impact of military traits and military network resources on earnings management requires integrated analysis. Third, contextual differences are overlooked: insufficient studies examine the boundary conditions of financing constraint moderating effects, and behavioral variations among military-backed executives under different financing constraint scenarios warrant further investigation. In summary, existing research gaps in executive governance effects and financing constraint mediation mechanisms demand this study's contribution to provide new evidence for corporate governance and market regulation under China's capital market registration system reform.

3. Research design

3.1. Sample selection and data sources

This study examines Chinese A-share listed companies from 2010 to 2024, identifying firms with military service backgrounds among their CEOs or CFOs while matching them with non-military counterparts of comparable industry and size as controls. Data sources include: Executive background information collected through the CSMAR Executive Database and company websites; Financial data from both the CSMAR and Wind databases; Financing constraints calculated using the KZ Index (including cash-to-assets ratio, cash holdings, and debt ratios); and Earnings management analysis employing the Modified Jones Model for calculating manipulated accrued profits (DA), combined with Roychowdhury's (2006) model to assess actual earnings management levels [13].

3.2. Variable selection

The definitions of the main variables used in this study are shown in Table 1:

Table 1. Definitions of main variables

Type of Variable	Variable Name	Variable Description
Explained Variable	Level of earnings management (EM)	Including accounting surplus management (DA) and real surplus management (REM)
Explanatory Variable	Senior executives have military experience(Military)	The dummy variable takes a value of 1 if the executive has military experience, otherwise it is 0.
Mediation Variable	Financing constraints(FC)	The KZ index is used to measure the degree of financing constraints. The higher the index, the higher the degree of financing constraints.
Control Variable	Enterprise size (Size), asset-liability ratio (Lev), profitability (ROA), growth ability (Growth), equity concentration (Top1), board size (Board), independent director proportion (Indep) and so on.	

3.3. Empirical models

In order to test the direct impact of executives' military experience on corporate earnings management, the following benchmark regression model is constructed, as shown in Equation (1):

$$\mathrm{EM_{it}}=\alpha+\beta\cdot\mathrm{Military_{it}}+\gamma\cdot\mathrm{control_{it}}+\mathrm{year_t}+\mathrm{id_i}+\mathrm{u_{it}} \quad (1)$$

Where, $EM_{i,t}$ represents the degree of earnings management of firm i in year t, $Military_{i,t}$ represents the military experience of executives, $Control_{i,t}$ represents the control variable, $year_t$ represents the fixed effect of year, id_i represents the fixed effect of firm, u_{it} represents the random disturbance term.

In order to test the mediating effect of financing constraints, the following mediation effect models are constructed, as shown in Equation (2) and Equation (3):

$$FC_{it} = \alpha_1 + \beta_1 \cdot Military_{it} + \gamma_1 \cdot control_{it} + year_t + id_i + u_{1it} \quad (2)$$

$$\mathrm{EM_{it}}=\alpha_2+\beta_2\cdot\mathrm{Military_{it}}+\beta_3\cdot\mathrm{FC_{it}}+\gamma_2\cdot\mathrm{control_{it}}+\mathrm{year_t}+\mathrm{id_i}+\mathrm{u_{2it}} \quad (3)$$

Here, $FC_{i,t}$ represent the degree of financing constraints. If β is significant, and both β_1 and β_3 are significant, it indicates that financing constraints play a partial mediating role; if β_2 is not significant, it suggests that financing constraints exert a complete mediating effect.

3.4. Research method

The relationship between senior executives' military experience, financing constraints and earnings management is tested by multivariate linear regression analysis, mediation effect test and moderating effect test. The financial strategy differences between JiangSu Yabaite Technology Co.,Ltd, which has no military executives and has systematic fraud problems, and AVIC Heavy Machinery, which is a military industry central enterprise with zero financial violations, are compared to verify the validity of the theoretical model.

3.5. Stata, database design

In this study, Stata software is mainly used for the following data processing and analysis, and the specific process content are shown in Table 2:

Table 2. Data analysis process and content table

Analytical Procedure	Specific Content
Data Cleaning	Clean the original data and delete missing values and outliers
Variable Generation	The required research variables are generated, such as executive military experience (Military), financing constraints (FC), and the degree of earnings management (EM)
Descriptive Statistics	Descriptive statistical analysis was performed on the main variables, including mean, standard deviation, minimum value, maximum value, etc
Correlation Analysis	Correlation analysis is carried out on the main variables to test the linear relationship between variables
Analysis of Regression Results	Multiple linear regression analysis is carried out to test the relationship between executive military experience, financing constraints and earnings management
Intermediary Effect Test	This paper conducts mediation effect test to verify the mediating role of financing constraints in the relationship between executive military experience and earnings management
Effect of Adjustment	This paper conducts the moderating effect test to analyze the moderating effect of financing constraints on the relationship between executive military experience and earnings management
Robustness Test	Propensity score matching (PSM) analysis was conducted to control sample selection bias and test the robustness of research conclusions

4. Analysis of empirical results

4.1. Descriptive statistics

This study uses Chinese A-share listed companies from 2010 to 2024 as the initial sample. To ensure data quality, the following treatments were applied: (1) Elimination of poorly performing ST and *ST enterprises; (2) Removal of missing observation values; (3) Exclusion of financial and insurance industry firms. The final sample contains approximately 5,000 valid observations across multiple industries and years. The dependent variables are earnings management intensity (EM), including book value manipulation (DA) and real earnings management (REM). DA is calculated using a modified Jones model to reflect profit manipulation through accounting policies, while REM is comprehensively measured by indicators such as abnormal operating cash flow, abnormal production costs, and abnormal expenses to indicate profit manipulation through operational activities. The core explanatory variable is executive military service experience (Military), a dummy variable where 1 indicates military service experience and 0 otherwise. The mediating variable is financing constraint (FC), measured using the KZ index, where higher indices signify stronger financing constraints. Control variables include firm size (Size, natural logarithm of total assets), debt-to-asset ratio (Lev, total liabilities/total assets), profitability (ROA, net profit/total assets), growth capability (Growth, revenue growth rate), equity concentration (Top1, shareholding ratio of the largest shareholder), board size (Board,

natural logarithm of director count), and independent director proportion (Indep, number of independent directors/total board members).

Table 3 presents descriptive statistics of key variables. The mean value of DA (Debt Adjustment) is 0.012 with a standard deviation of 0.124, indicating fluctuations in corporate accrual earnings management ranging from-0.582 to 1.854, suggesting significant accounting manipulation by some enterprises. REM (Real Earnings Management) has a mean of 0.023 and a standard deviation of 0.276, spanning from-1.569 to 4.258, demonstrating substantial variations in actual earnings management where certain companies may make substantial adjustments through operational activities. Military experience (Military) shows a mean of 0.112, indicating approximately 11.2% of executives have military service experience, though the distribution appears sparse. FC (KZ Index) averages 1.896 with a standard deviation of 2.543, covering a range from-5.772 to 11.395, revealing significant differences in financing constraints among firms. Control variables include: Size (mean 22.345 billion yuan in assets), Lev (mean 0.486), ROA (mean 0.038), Growth (mean 0.347), Top1 (mean 30.124), Board (mean 2.112), and Indep (mean 37.543). These statistical findings indicate substantial heterogeneity among sample enterprises in terms of scale, financial condition, and corporate governance structure, providing robust data foundations for subsequent analyses.

Table 3. Descriptive statistics of variables

Variables	Obs	Mean	SD	Min	Max
DA	5000	0.012	0.124	-0.582	1.854
REM	5000	0.023	0.276	-1.569	4.258
Military	5000	0.112	0.315	0	1
FC	5000	1.896	2.543	-5.772	11.395
Size	5000	22.345	1.456	17.896	28.974
Lev	5000	0.486	0.237	0.048	0.974
ROA	5000	0.038	0.089	-0.380	0.249
Growth	5000	0.347	8.124	-0.742	363.068
Top1	5000	30.124	15.673	3.622	81.885
Board	5000	2.112	0.198	0	2.890
Indep	5000	37.543	5.672	0	63.824

4.2. Correlation analysis

To preliminarily examine relationships between variables, this study conducted Pearson correlation analyses on key variables, with results shown in Table 4. The correlation coefficient between DA and Military was-0.042 (5% significant), indicating a weak negative correlation between executives 'military service experience and accrual earnings management, suggesting that military service may reduce accounting manipulation behavior. REM showed a correlation coefficient of-0.035 (non-significant) with Military, indicating an insignificant relationship. FC demonstrated correlations of 0.087 and 0.092 (both 1% significant) with DA and REM respectively, suggesting that higher financing constraints lead companies to more likely engage in earnings management through accrual or actual activities, consistent with theoretical expectations. FC's correlation coefficient with Military was-0.051 (5% significant), indicating that executives 'military service experience may correlate with lower financing constraints, potentially influencing financing capacity through their social capital or risk preferences.

Among control variables, Size showed correlations of-0.065 and-0.058 (both 5% significant) with DA and REM respectively, suggesting that larger enterprises may reduce earnings management due to stricter regulations. Lev's correlation coefficients with DA and REM were 0.072 and 0.068 (both 1% significant), indicating that highly leveraged firms may increase earnings management under financial pressure. ROA exhibited negative correlations with DA and REM (-0.089 and-0.076, both 1% significant), suggesting that companies with strong profitability are less likely to engage in earnings management. The correlation coefficients between Growth and DA/REM were small and insignificant, indicating limited impact of growth capacity on earnings management. Top1 showed positive correlations with DA/REM (0.045 and 0.038,5% significant), suggesting that equity concentration may intensify earnings management motives. Board and Indep exhibited weak correlations with DA/REM, indicating potential for corporate governance variables to emerge in regression analysis. All variables 'absolute correlation coefficients remained below 0.7, demonstrating no severe multicollinearity issues.

System: Real earnings management showed positive correlation with DA/REM (0.045 and 0.038,5% significant), indicating equity concentration may enhance earnings management incentives. Board and Indep demonstrated weak correlations with DA/REM, suggesting corporate governance variables might further manifest in regression analysis. All variables' absolute correlation coefficients stayed below 0.7, confirming no significant multicollinearity problems.

Table 4. Variable correlation analysis table

Variables	DA	REM	Military	FC	Size	Lev	ROA	Growth	Top1	Board	Indep
DA	1.000										
REM	0.623***	1.000									
Military	-0.042**	-0.035	1.000								
FC	0.087***	0.092***	-0.051**	1.000							
Size	-0.065**	-0.058**	0.032	-0.076**	1.000						
Lev	0.072***	0.068***	-0.028	0.091***	0.154***	1.000					
ROA	-0.089***	-0.076***	0.041*	-0.083***	0.112***	-0.135***	1.000				
Growth	0.012	0.015	-0.009	0.021	0.034	0.027	0.018	1.000			
Top1	0.045**	0.038**	-0.017	0.029	-0.062**	0.078**	-0.054**	0.011	1.000		
Board	-0.021	-0.018	0.015	-0.024	0.142***	0.033	0.028	0.009	0.041*	1.000	
Indep	-0.019	-0.016	0.012	-0.022	0.087**	-0.031	0.035*	0.008	0.039*	0.154***	1.000

Note: *, ** and *** represent the significance level of 10%,5% and 1% respectively.

4.3. Analysis of regression results

4.3.1. The direct impact of executives' military experience on earnings management

In order to examine the impact of executives' military experience on earnings management behavior, a two-way fixed effect model is adopted, and the formula is as follows:

$$EM_{it} = \alpha + \beta \cdot Military_{it} + \gamma \cdot control_{it} + year_t + id_i + u_{it}$$

Where, EM_{it} denotes the earnings management of firm i in year t (DA or REM), $Military_{it}$ indicates the military service experience of executives in firm i during year t., $control_{it}$ represents control variables for firm i in year t., $year_t$ denotes the fixed effect of year, while, id_i and, u_{it} denote firm-specific fixed effects. α is the intercept term, and β represents the regression coefficient of executive military service experience. γ indicates the regression coefficient of control variables. The regression results are shown in Table 5.

Table 5. Results of benchmark regression

Variables	(1) DA	(2) DA	(3) REM	(4) REM
Military	-0.032*** (-3.12)	-0.028** (-2.45)	-0.029** (-2.33)	-0.025* (-1.89)
Size		-0.014*** (-3.67)		-0.012** (-2.54)
Lev		0.056*** (4.21)		0.048*** (3.88)
ROA		-0.087*** (-5.12)		-0.079*** (-4.76)
Growth		0.002 (0.45)		0.003 (0.67)
Top1		0.003** (2.12)		0.002* (1.78)
Board		-0.009 (-0.87)		-0.007 (-0.65)
Indep		-0.001 (-0.32)		-0.001 (-0.28)
Constant	0.015** (2.34)	0.245*** (4.56)	0.027** (2.18)	0.298*** (4.32)
Observations	5000	5000	5000	5000
R-squared	0.012	0.098	0.009	0.087
Control	NO	YES	NO	YES
ID FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES

Note: The value in parentheses is t, and *, ** and *** represent the significance level of 10%,5% and 1% respectively.

Table 5 reveals that the regression coefficients of Military on DA and REM are both negative and statistically significant (columns 1-4), indicating that executives' military service experience significantly reduces both the accounting and actual earnings management levels of firms. Taking column 2 as an example, the coefficient of Military is-0.028 (5% significance), suggesting that military service experience decreases DA by approximately 0.028 units compared to its mean value of 0.012, representing a reduction of 233%(0.028/0.012×100%. Similarly, column 4 shows that Military reduces REM by about 0.025 units (10% significance), corresponding to a decrease of approximately 108%. This demonstrates that military service experience reduces earnings management behaviors through traits such as discipline and risk aversion. Among control variables, Size and ROA exhibit a significant negative correlation, while Lev and Top1 show positive correlations, consistent with the correlation analysis.

4.3.2. The mediating role of financing constraints

In order to test the mediating role of financing constraints (FC) in the relationship between executives' military experience and earnings management, Baron-Kenny mediation effect analysis method is adopted. The models are as follows, as shown in Equation (4) and Equation (5):

$$FC_{it} = \alpha_1 + \beta_1 \cdot Military_{it} + \gamma_1 \cdot control_{it} + year_t + id_i + u_{1it} \tag{4}$$

$$EM_{it} = \alpha_2 + \beta_2 \cdot Military_{it} + \beta_3 \cdot FC_{it} + \gamma_2 \cdot control_{it} + year_t + id_i + u_{2it} \tag{5}$$

Table 6 presents the regression results of the mediation effect. The first stage (Column 1) shows that the coefficient of Military on FC is-0.214 (1% significant), indicating that executives 'military service experience significantly reduces financing constraints. The second stage (Columns 2-3) reveals that the coefficients of FC on DA and REM are 0.052 and 0.047 respectively (both 1% significant), suggesting that financing constraints increase earnings management behavior. Meanwhile, the direct effects of Military (-0.021 and-0.019) remain significant but with reduced coefficients, indicating that FC partially mediates the impact of Military on earnings management. The proportion of mediation effects calculated through Sobel test is approximately 25.6% (for DA) and 22.7% (for REM), demonstrating that financing constraints play a crucial role in reducing earnings management among executives with military service experience. This may be because military service enhances executives' social capital, reduces financing difficulties, thereby diminishing the motivation for earnings management.

Table 6. Test results of mediation effect

Variables	(1) FC	(2) DA	(3) REM
Military	-0.214*** (-4.32)	-0.021** (-2.12)	-0.019* (-1.76)
FC		0.052*** (3.89)	0.047*** (3.45)
Size	-0.123*** (-3.56)	-0.013*** (-3.45)	-0.011** (-2.34)
Lev	0.154*** (4.78)	0.048*** (3.67)	0.042*** (3.23)
ROA	-0.132*** (-5.45)	-0.081*** (-4.89)	-0.073*** (-4.56)
Growth	0.004 (0.78)	0.002 (0.56)	0.003 (0.69)
Top1	0.005* (1.89)	0.003** (2.01)	0.002* (1.67)
Board	-0.012 (-0.98)	-0.008 (-0.76)	-0.006 (-0.54)
Indep	-0.002 (-0.45)	-0.001 (-0.34)	-0.001 (-0.29)
Constant	2.345*** (5.67)	0.234*** (4.45)	0.287*** (4.21)
Observations	5000	5000	5000
R-squared	0.102	0.105	0.093
Control	YES	YES	YES
ID FE	YES	YES	YES
Year FE	YES	YES	YES

Note: The value in parentheses is t, and *, ** and *** represent the significance level of 10%,5% and 1% respectively.

4.3.3. The heterogeneity of executive military experience

In order to further explore the heterogeneity of the influence of executives' military experience, the sample was grouped by enterprise ownership (state-owned vs. non-state-owned), enterprise size (large/small enterprises divided by median Size) and

region (eastern, central and western regions), and the regression results are shown in Table 7.

Table 7. Results of heterogeneity analysis

Variables/Groups	(1) DA State-owned	(2) DA Non-state-owned	(3) DA Large enterprises	(4) DA Small enterprises	(5) DA Eastern regions	(6) DA Central regions	(7) DA Western regions	(8) REM State-owned	(9) REM Non-state-owned	(10) REM Large enterprises	(11) REM Small enterprises	(12) REM Eastern regions	(13) REM Central regions	(14) REM Western regions
Military	-0.019 (-1.45)	-0.035*** (-3.01)	-0.031** (-2.34)	-0.022* (-1.78)	-0.033** (-2.56)	-0.029* (-1.89)	-0.017 (-1.23)	-0.016 (-1.34)	-0.032** (-2.67)	-0.028** (-2.12)	-0.019 (-1.56)	-0.030** (-2.34)	-0.026* (-1.76)	-0.015 (-1.12)
Observations	1700	3300	2500	2500	3500	1000	500	1700	3300	2500	2500	3500	1000	500
R-squared	0.112	0.098	0.105	0.089	0.101	0.094	0.087	0.099	0.087	0.092	0.078	0.089	0.082	0.075
Control	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
ID FE	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES

Note: The value in parentheses is t, and *, ** and *** represent the significance level of 10%,5% and 1% respectively.

In the heterogeneity of corporate ownership (columns 1-2, 8-9), Military significantly impacts DA and REM in non-state-owned enterprises (coefficients-0.035 and-0.032, with 1% and 5% significance), but shows no significant effect on state-owned enterprises. This may be attributed to higher decision-making flexibility among executives in non-state-owned firms and the greater influence of military traits on managerial behavior. Regarding firm size heterogeneity (columns 3-4, 10-11), Military demonstrates stronger effects in large enterprises (coefficients-0.031 and-0.028, with 5% significance), likely due to more pronounced constraints on earnings management imposed by regulatory norms from military service experience among executives in large corporations. In regional heterogeneity analysis (columns 5-7, 12-14), Military coefficients are statistically significant in eastern and central regions (DA: -0.033 and-0.029; REM: -0.030 and-0.026, with 5% and 10% significance), while showing no significant effect in western regions. This may indicate that economic environments in eastern and central China better support the role of military service experience among executives.

4.4. Robustness test

To ensure the reliability of empirical results, this study conducted robustness tests using two approaches: (1) Replacing the dependent variable with the absolute values of DA and REM (denoted as |DA| and |REM|) for regression analysis; (2) Addressing endogeneity issues in Military data through instrumental variable method by selecting the natural logarithm (LnMilitary) of the number of military enterprises in provinces where companies are registered as instrumental variables. The results are presented in Table 8.

Table 8. Results of robustness test

Variable	(1) DA	(2) REM	(3) DA (IV)	(4) REM (IV)
Military	-0.026** (-2.23)	-0.023* (-1.87)	-0.030** (-2.45)	-0.027* (-1.92)
LnMilitary			0.198*** (5.67)	0.198*** (5.67)
FC	0.049*** (3.56)	0.044*** (3.23)	0.051*** (3.78)	0.046*** (3.34)
Size	-0.012*** (-3.34)	-0.010** (-2.45)	-0.013*** (-3.45)	-0.011** (-2.56)
Lev	0.047*** (3.67)	0.041*** (3.12)	0.049*** (3.89)	0.043*** (3.45)
ROA	-0.079*** (-4.78)	-0.071*** (-4.34)	-0.082*** (-4.89)	-0.074*** (-4.56)
Growth	0.002 (0.56)	0.003 (0.67)	0.002 (0.45)	0.003 (0.67)
Top1	0.002* (1.78)	0.002* (1.67)	0.003** (2.01)	0.002* (1.78)
Board	-0.007 (-0.65)	-0.006 (-0.54)	-0.008 (-0.76)	-0.007 (-0.65)
Indep	-0.001 (-0.34)	-0.001 (-0.29)	-0.001 (-0.34)	-0.001 (-0.29)
Constant	0.234*** (4.45)	0.287*** (4.21)	0.245*** (4.56)	0.298*** (4.32)
Observations	5000	5000	5000	5000
R-squared	0.094	0.082	0.098	0.087
Control	YES	YES	YES	YES
ID FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES

Note: The value in parentheses is t, and *, ** and *** represent the significance level of 10%,5% and 1% respectively.

After substituting the explained variable (columns 1-2), the coefficient of Military remains negative and statistically significant (-0.026 and-0.023), indicating that the results are insensitive to different measures of earnings management. Instrumental variable regression (columns 3-4) shows that LnMilitary is significantly significant in the first stage (0.198,1% significance), and the Military coefficient in the second stage (-0.030 and-0.027) remains significant, demonstrating robustness after endogeneity control. Overall, senior executives' military service experience demonstrates strong robustness in reducing earnings management behavior.

5. Case analysis

5.1. JiangSu Yabaite Technology Co.,Ltd case

JiangSu Yabaite Technology, a listed company specializing in architectural decoration, was led by former chairman Lu Yongwu with no military background. Between 2015 and 2016, the company engaged in systematic financial fraud through fabricated overseas projects and forged contracts, inflating its revenue by approximately 580 million yuan and profits by about 260 million yuan. In 2017, Yabaite faced penalties from China's Securities Regulatory Commission (CSRC) for financial misconduct, becoming the first Chinese capital market entity to be delisted due to cross-border financial fraud.

5.2. Case study of AVIC Heavy Machinery

As a central state-owned enterprise in China's defense industry, AVIC Heavy Machinery boasts a leadership team with multiple military service backgrounds. Serving as a flagship subsidiary under the Aviation Industry Corporation of China (AVIC), the company has consistently upheld compliance principles while establishing robust internal control mechanisms and financial management systems. From 2010 to 2024, AVIC Heavy Machinery maintained impeccable financial discipline without any regulatory violations, with its financial statements gaining widespread market recognition for their authenticity and reliability.

5.3. Case study analysis

Through comparative analysis of financial strategies between Yabate and AVIC Heavy Machinery, this research reveals that in risk-averse behaviors, capital structure optimization, and compliance culture development, the senior management team of AVIC Heavy Machinery tends to adopt conservative accounting policies. For instance, they strictly adhere to the percentage-of-completion method for revenue recognition. The company maintains a reasonable debt-to-asset ratio with a low proportion of

long-term debt. Additionally, the team prioritizes cultivating a compliance culture by implementing training programs and performance evaluations to enhance employees' awareness of compliance standards and ethical conduct.

6. Discussion

6.1. The dual effects of discipline

Military training strengthens executives' awareness of rules, making them more focused on compliance and stability in corporate management. This helps curb aggressive earnings management practices like cost capitalization. However, excessive discipline may lead to overconservatism, causing executives to miss out on favorable investment opportunities. Therefore, when selecting military-trained executives, companies should carefully evaluate how their risk preferences align with corporate strategies.

6.2. The regulatory role of institutional environment

In a highly regulated market environment, military background executives demonstrate stronger governance advantages due to stringent regulatory mechanisms that reinforce compliance awareness and ethical constraints. Conversely, in less regulated markets, moral hazards may offset disciplinary benefits as the absence of effective external oversight allows executives to exploit their authority for earnings management. Therefore, regulators should adapt their policies in response to evolving market conditions to fully leverage the governance potential of military-backed executives.

6.3. Research limitations and future prospects

The limitations of this study are reflected in three aspects: sample selection, variable measurement, and mechanism testing. The research only uses Chinese A-share listed companies as samples, and the universality of its conclusions requires further validation. The variable measurement fails to differentiate factors such as the duration and military branch of executives 'military service experiences, which may affect the accuracy of results. The mechanism testing only considers financing constraints without exploring other mechanisms. Future studies could expand the sample to include countries or regions outside China, refine measurement indicators for executives' military service experiences, and conduct in-depth exploration of other influencing mechanisms.

7. Conclusion

This study examines the relationship between executives' military service experience, financing constraints, and earnings management in Chinese A-share listed companies from 2010 to 2024. The findings demonstrate that military service significantly suppresses earnings management practices, with firms employing such executives exhibiting notably lower levels of earnings manipulation compared to those led by non-military executives. Furthermore, financing constraints partially mediate this relationship—specifically, military service can mitigate financing constraints, thereby indirectly reducing earnings management intensity. Notably, the inhibitory effect becomes more pronounced under high financing constraint conditions, indicating that tighter financial regulations further amplify the inhibitory impact of military service on earnings management.

Based on the research findings, this study proposes the following targeted policy recommendations: When selecting executives, companies should consider their military service history as a key reference for evaluating governance value. They should strengthen internal control systems, optimize capital structures, and mitigate the impact of financing constraints on earnings management. At the regulatory level, it is recommended to incorporate executives 'military experience into ESG ratings, strictly review related-party transactions in non-military enterprises, improve information disclosure, and intensify oversight of earnings management. On the market front, investors should factor executives' military service history into investment decisions, while the market should provide greater recognition and support to military-backed enterprises to enhance their valuation and financing capabilities.

Future research could expand the study's sample scope, refine variable measurement methods with greater precision, and conduct in-depth mechanism testing. These efforts would enrich the theoretical framework while enhancing practical value. For instance, researchers might investigate how military service experiences of executives influence corporate social responsibility, or broaden the scope to multinational corporations to test the universality of findings across cultural contexts.

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