St. John's University
The Peter J. Tobin College of Business

Review of Business

Interdisciplinary Journal on Risk and Society

Volume 39, Number 1 | January 2019

Review of Business: Interdisciplinary Journal on Risk and Society 39, no. 1, 75–93.

Corporate Treatment of Veterans as an ESG Factor and a Potential Source of Incremental Returns

Herbert D. Blank

Abstract

There are significant social and psychological differences between military veterans and nonveterans (Hicks, Weiss, Coll, and McDonald 2017). Thus, at the corporate level the influx and persistence of veterans within firms influences both the employers' current and future performance. The systematic study of the impact of these influences is just beginning (Atuel et al. 2017). This study posits that the hiring and training of veterans is both consistent with a firm's corporate and social responsibility (CSR) objectives, and a source of economic value to the firm. The study proposes the following: Investors, both active and passive, integrate environmental, social, and governance (ESG) criteria as a barometer to measure the degree to which capital deployment supports a long-term return that is not only forecastable, but sustainable. Investor relations professionals, management teams, and boards should continue to understand the influence ESG maintains over cost of capital. Price multiple appreciation is strongly correlated to an increase in the return on invested capital (ROIC) over the cost of capital if a corporate team can provide the investment community with a clearly defined long-term cost of capital. Effective messaging now requires the incorporation of ESG, not simply to earn goodwill from external stakeholders, but to optimize valuation. This study examines how this corporate messaging also applies to social key performance indicators (KPIs) related to programs for military veterans. To date, none of the major ESG data providers have included military-related KPIs in their core offerings. The findings indicate that ESG data providers and their clients may be overlooking important positive indicators relating to management quality and potential incremental returns.

THE BENEFITS OF U.S. MILITARY VETERANS TO CORPORATIONS

As a nation that fought its way to freedom, encouraging enlistment by offering benefits to veterans has been part of U.S. culture (Meglesh 2017). Since its inception, the U.S. government and society have provided veterans benefits and

Herbert D. Blank, MBA, Quant Pioneers LLC, herbert.d.blank@gmail.com

encouraged post-service employment (see Appendix A for a timeline of veterans' employment initiatives).

Starting with World War I and in most of the decades since, tangible steps have been taken by the U.S. government to strengthen the legal rights for veterans to return to their jobs. Furthermore, other laws have promoted new hiring of veterans with the establishment of new agencies and departments to provide training and rehabilitation benefits (Ruh, Spicer, and Vaughan 2009; Greengard 2012). In addition to governmental action, a steady stream of non-governmental organizations (NGOs) have been established during the past 130 years to augment government efforts to go beyond legislation to help veterans rejoin the civilian workforce and prosper. A partial listing of these NGOs is provided in Appendix B.

While the slogan, "Don't forget. Hire the vet" gained prominence in the 1960s, the sentiment behind it has reflected the general support of veterans by the civilian population throughout most of U.S. history. This sentiment, however, ebbed most noticeably during the 1970s amid and in the aftermath of the unpopular Vietnam War (Cohary 1990). Popular support surged again in the 1980s and has remained strong. However, popular sentiment alone is not sufficient to transition veterans from military to civilian employment. Unlike veterans of World War II, today's U.S. veterans face challenges in gaining and maintaining civilian employment (Stone and Stone 2015; Gabriel 2017; Vick and Fontanella 2017). The analysis of Faberman and Foster (2013) concludes that the extended deployments, which began around 2002 (and continue today), are hampering the participation of veterans in the civilian workforce, even though the reasons are not clear from the analysis. It is therefore appropriate that corporations, many of them household names, regard positive treatment and accommodation of military veterans as a central theme in their CSR thinking. In this era of CSR reports and dedicated responsibility sections on corporate websites, most major corporations in the United States (e.g., Amazon, AEP, Cisco, Humana, IBM, JP Morgan Chase, Prudential, and WalMart) highlight their employment policies and achievements concerning employing and training military veterans. This ongoing commitment toward military veterans is prominently illustrated by their inclusion in corporate diversity programs and reports. While the literature has not yet formalized the link between employing military veterans and CSR, it is evident from the strength of the public-private coalition that is mobilized to transition veterans to civilian employment that the majority of corporations in the United States consider the hiring and training of veterans as a key CSR goal.

That said, implementing a hiring program aimed at military veterans is not easy. Both published studies (for example Hicks, Weiss, Coll, and McDonald 2017; Davis and Minnis 2017; Stone and Stone 2015) and anecdotal evidece (Moran 2011; Citroën 2018) report challenges in establishing military veteran hiring programs in firms, despite firms professing keen interest in doing so. A commonly reported refrain is that human resources professionals find it difficult to relate to, or understand the vernacular of, applicants who are veterans as well as the many talents that veterans bring to the workforce. It is noteworthy that with an appropriate selection process, competitively employed disabled veterans can also enjoy employment stability (Dillahunt-Aspillaga et al. 2018). Another reported obstacle raised by program advocates is the lack of generally accepted firm-specific metrics to support advocacy for the hiring of veterans within the firm.

Evan Guzman, head of marketing and strategic partnerships at Veterati, contends that when an employer hires a veteran, it receives a new set of skills, experience, and job training unmatched in the civilian sector. He argues that human resources should find a way to modify their metrics to account for an expected return on military experience. To the extent that a study of veterans' employment by the federal service can be applied to the private sector, there may be cause for optimism in this regard. After controlling for common traits such as age, race, gender, health, and education, Johnson (2014) finds that veterans hired by the U.S. federal service advance in their careers faster than, or at least at the same rate as, non-veterans.

There are also research studies that support the case that military veterans enhance a firm's talent pool and endow it with tangible leadership skills, especially during a crisis. The personal dimensions associated with leadership are well-investigated and profiled. A study of combat-decorated veterans by Wansink, Payne, and von Ittersum (2008) concludes that these heroes possess a profile similar to that associated with transformational leaders. Veterans, regardless of whether they have been decorated for valor in combat, still bring to their civilian employers distinctive cababilites that go beyond techical cababilites. The soft skills of veterans include flexibility in decision-making, grit, attention to detail, and enterpreurship bounded within the firm's framework (Short, Zachary, and Ketchen 2018; Davis and Minnis 2017). It is not surprising, therefore, that studies of military veterans' tenures as chief executive officers (CEOs) show tangible benefits of superior management. A Korn/Ferry International (2005) study found that CEOs with a military background are more likely to deliver strong performance, and that CEOs who served in the military stayed longer on the job, likely due to their market-beating performance. These CEOs boast a median tenure of 5 years and an average tenure of 7.2 years, compared to 4 years and 4.5 years for all S&P 500 CEOs. The correlation between military service and executive performance is the most notable finding reported by Korn/Ferry. Their study demonstrates that the leadership skills learned in military training enhance success in corporate life. The CEOs interviewed reveal six leadership traits that have served them exceptionally well in the boardroom:

1. Learning how to work as part of a team
2. Planning and effective use of resources
3. Good communication skills
4. Defining a clear goal and motivating others to pursue it
5. A highly developed sense of ethics
6. The ability to remain calm under pressure

The Korn/Ferry findings were supported and expanded by Benmelech and Frydman (2015) who examined the transferability of military training and skills into corporate leadership success. The study analyzed data on U.S. publicly traded companies from 1980 through 2006. It concluded that CEOs with military experience perform better under pressure and are much less likely to commit corporate fraud.

The researchers also found that the equities of these companies held up significantly better than the market during times of financial stress. "In an industry that is going through a decline or some distress, we find that those firms that are run by CEOs with military experience perform better than other CEOs," Benmelech and Frydman (2015) state. They assert that CEOs who are military veterans perform better under pressure perhaps because "… service in the military may prepare one to make tough decisions and show leadership in tough times."

KEY PERFORMANCE INDICATORS FOR CORPORATE TREATMENT OF MILITARY VETERANS

For corporate treatment of military veterans to be considered for integration into an ESG framework, measurable key performance indicators (KPIs) must be identified and tested. The most logical places to begin are websites that collect and use such data. There are three websites dedicated to military and veterans' issues (MilitaryTimes.com, Monster.com, and Militaryfriendly.com) that have different annual published lists of firms cited for being among the best places for veterans to work. The preparation of each list is based upon a different methodology. The methodologies are briefly explained below.

The Military Times site uses a survey of employers to determine among them the "Best for Vets Employers." More than 2,300 organizations across the country were invited to participate in 2018 in this annual survey of 90 questions. Out of those responding to the survey, just 100 firms were selected to appear on the 2018 list of the best employers for veterans. The survey is conducted annually, is rigorously detailed, and includes data falling into a number of key categories. Examples of these categories include the percentage of new and existing employees in the firm with military experience, the firm's policies that govern the recruitment of veterans, their transition and assimilation into the firm (onboarding), the firm's continuing support for the hired veterans and their spouses, and how the firms accommodated employment of those veterans in the reserve (Gross 2018).

The Monster.com site methodology begins with nominations from a panel of hiring experts. Information on how the experts are selected or how many companies are nominated by each expert is not disclosed. The attributes on which selection is made, however, are selected in cooperation with Military.com (which is a subsidiary of Monster Worldwide, the corporate entity maintaining the Monster.com side). The methodology is self-reported to consider each company's veteran hiring, onboarding, and retention practices (Monster.com 2018).

The Militaryfriendly.com site assesses employer ratings through the evaluation of both public data about firms and other organizations and proprietary data gathered through a survey. To be included in the site's list an organization must successfully complete the Military Friendly® Employers' portion of the site's survey and meet at least three of nine criteria (in three broad categories) that relate to veteran employment (Military Friendly 2018).

Of interest, in 2017 the corporate entity that maintains this site signed a consent decree and settled charges brought by the Federal Trade Commission that it accepted money from schools that wanted to be included in searches for "military friendly" schools without disclosing that fact. However, there is no evidence that the website's objective metric categories (veterans' retention, turnover, and promotion rate) were compromised.

Although there are trade-offs between the three methodologies summarized above, their major areas of focus have considerable overlap and reach a general consensus on key areas. The Military Times methodology, however, generates the most granular data from respondents. The data are important, but as a demonstration of corporate engagement, so too is the willingness of a firm to provide so many details.

Proponents of integrating environmental, social, and governance (ESG) criteria into the investment process, especially for investors with long-term goals, often cite firms' ESG scores as metrics of management quality. The premise is that management teams that are proactive, as opposed to reactive, on issues concerning the environment, human capital, community citizenship, and corporate governance will be best able to navigate future challenges. Perhaps this is why the methodology employed by the Military Times was translated into a tradable investment index by VETS Indexes.

VETS INDEXES: MEASURING THE PERFORMANCE OF PUBLICLY TRADED BEST-FOR-VETS COMPANIES

VETS Indexes is an independent provider of custom indexes. The company specializes in constructing and disseminating thematic impact indexes for investors, exchanges, and asset managers to use as underlying portfolios for financial products. At the core of the VETS Indexes is a belief that the mission critical mindset, unique skill sets, and specialized training that U.S. military veterans bring to the workplace are differentiating factors in an enterprise's overall performance. While the philosophy underpinning the construction of the index accepts that veterans' attributes are not the only driving force behind any firm's success, this philosophy is dedicated to the proposition that a firm which recognizes the hiring of veterans as a competitive advantage, and also that hiring veterans contributes to the social good, indicates superior corporate governance and management quality. The provider of the VETS Indexes signals its commitment to this proposition by donating between 5 and 20 percent of net profits to charitable organizations that support the wellness of military veterans and their families (VETS Indexes 2018).

Index Methodology

The objective of the Military Times Best for VETS Index—based on the Military Times Best for Vets: Employers Annual Ranking Survey—is to provide a social impact index focused on the employment and treatment of military veterans by publicly traded firms. The statistical data supporting this index is in Appendix D and all subsequent references to this index will be *MT Best for VETS Index*. The construction, maintenance, and rebalancing of the index are intuitive. The constituents in the index are equally weighted, rebalanced quarterly, and reconstituted annually after the close of trading on the third Friday of September. Companies that are acquired or otherwise cease to trade on a U.S. exchange are removed from the index without replacement and their weight in the index at time of removal is equally apportioned to the remaining constituents.

Testing Methodology

This study examines the performance of the the MT Best for VETS Index from December 31, 2012 through October 31, 2018. The study uses monthly total return data for the MT Best for VETS Index and compares it against the following four benchmark indexes: The Thomson Reuters/S-Network ESG Best Practices Index, the S&P 500 Index, the equal-weighted version of the S&P 500 Index, and the FTSE Russell 3000 Index.

The Thomson Reuters/S-Network ESG Best Practices Indices are a suite of indices designed to provide a benchmark of companies exhibiting best corporate social responsibility practices as measured by their superior ratings in the Thomson Reuters/S-Network ESG Best Practices Ratings schema. The ratings rank the constituent companies on environmental, social, and governance performance based upon more than 200 underlying KPIs. The ratings are normalized so that 50 is the mean ESG score and the standard deviation is 18. The indices represent a comprehensive benchmarking system for CSR investors (Blank, Sgambati, and Truelson 2016).

The S&P 500 Index is the market-cap weighted index standard for large cap core equities in the United Sates.

As the name indicates, the equal-weighted S&P 500 Index equally weights the same constituents in the S&P 500. It was specifically created to serve as the benchmark for what is now the Invesco S&P 500 Equal Weight ETF with the ticker symbol RSP. It is reconstituted and rebalanced quarterly.

The market-cap weighted FTSE Russell 3000 Index contains the largest 3000 companies domiciled in the United States. It is reconstituted annually in the middle of the calendar year and no replacements are made in the Russell between reconstitutions for stocks that are acquired or otherwise cease trading. In all cases, monthly total returns were used in the calculations.

The use of the Thomson Reuters/S-Network Index provides a comparison of the MT Best for VETS Index with a traditional SRI/ESG index. The S&P 500 Index and the Russell 3000 represent traditional benchmark choices. Notice that several of the firms in the MT Best for VETS Index are not included in the S&P 500 while some are included in the much broader Russell. The equal-weighted S&P 500 index is used (even though not all the firms in the MT Best for VETS Index are in the S&P 500) since the MT Best for VETS Index is also equally weighted.

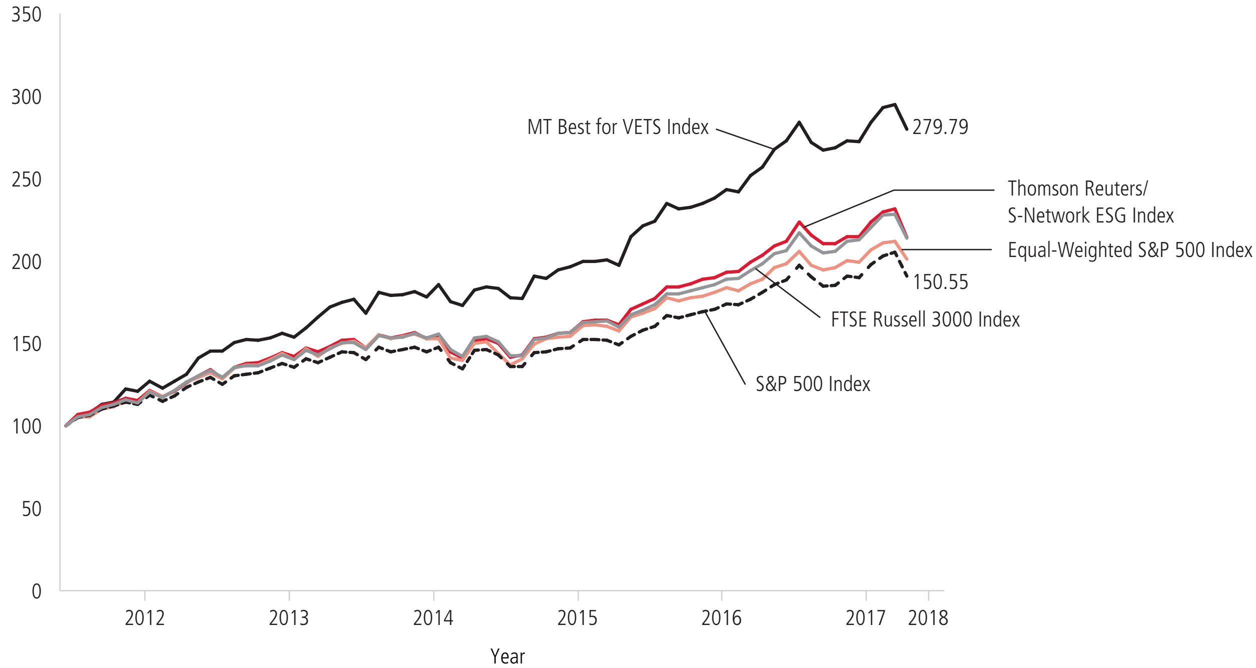
Table 1 shows that the public companies that meet the Military Times' criteria as Best for Vets overwhelmingly are among the better ranked companies in the Thomson Reuters/S-Network Best Practices ESG ratings system. The statistical data also show that the trend toward best corporate citizenship practices and inclusion in the MT Best for VETS Index has improved each year.

Figure 1 shows the MT Best for VETS Index and the four benchmarks scaled to an identical starting point of 100 at December 31, 2012. Although the inception date for the VETS Index is August 31, 2012, the year-end 2012 number is used to

TABLE 1. Thomson Reuters/S-Network ESG Index Ratings (Mean = 50; SD = 18) for VETS Index Constituents

MT Best for VETS Index Constituents	2018	2017	2016
Average Thomson Reuters/S-Network ESG Index Rating	68.9	65.9	64.3
Median Thomson Reuters/S-Network ESG Index Rating	71	67	67
Range of Thomson Reuters/S-Network ESG Index Ratings	53 to 80	44 to 80	41 to 83
Standard Deviation	7.3	9.1	10.4
Number Below 50	0	2	2

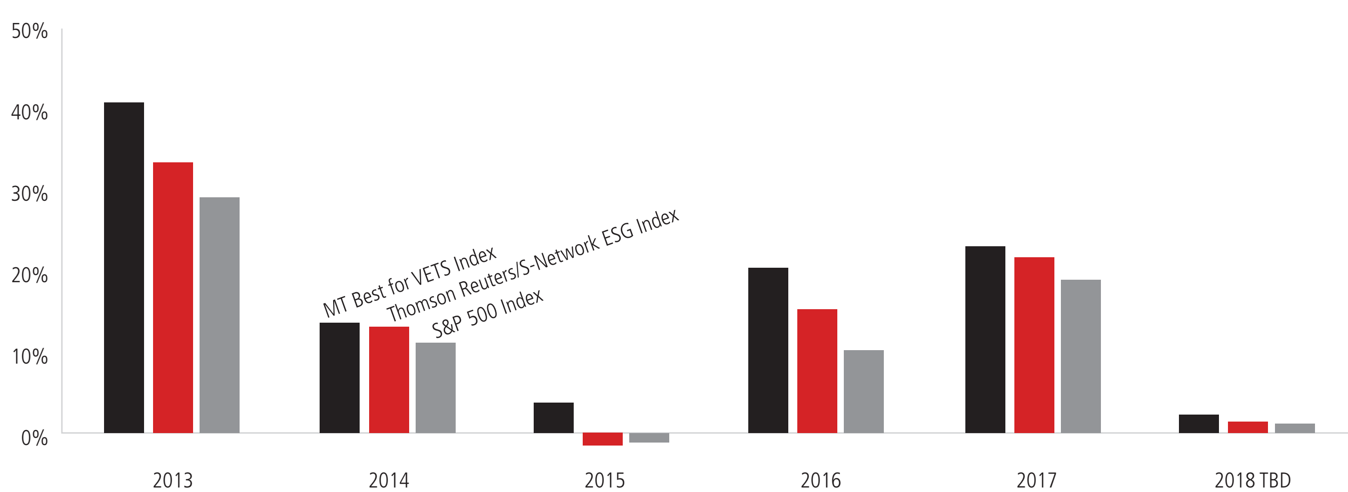
FIGURE 1. **MT Best for VETS Index Versus Relevant Benchmarks**



allow for this scaled comparison. The figure shows a clear positive differentiation between the 5.83-year growth of the MT Best for VETS Index, which achieved a level of 279.79 and the benchmarks. The Thomson Reuters/S-Network Best Practices ESG Index placed second at 214.40 which suggests an ESG absolute performance advantage of 13 percent for the period measured over the 190.55 mark posted by the S&P 500. These levels are 30 percent lower and 47 percent lower respectively than that attained by the MT Best for VETS Index. The Russell 3000 finished just slightly lower than the Thomson Reuters/S-Network Best Practices ESG Index and the equal-weighted S&P 500 Index finished fourth, about midway between the Russell 3000 and the S&P 500.

Figure 2 illustrates an additional comparison as it shows the calendar year return comparisons between the MT Best for VETS Index and two of the other

FIGURE 2. **MT Best for VETS Index Versus Benchmarks: Calendar Year Total Returns**



benchmarks. The figure excludes the equal-weighted S&P 500 Index and the Russell 3000 simply for visual clarity.

In terms of total return, the MT Best for VETS Index outperforms both the Thomson Reuters/S-Network Best Practices ESG and the S&P 500. Interestingly, for the month of October 2018, the most adverse month for the S&P 500 since October 2015, the MT Best for VETS Index fell only 5.0 percent as compared with a 7.1 percent decline for the S&P 500. Similar results occurred in that earlier month of October; the VETS fell only 5.5 percent while the S&P 500 fell 7.5 percent. These results are consistent with the implications in Benmelech and Frydman (2015), Haynie (2016), and Short, Zachary, and Ketchen (2018) that firms partial to military employees are resilient.

The monthly breakdown of returns is shown in Table 2.

TABLE 2. Monthly Index Returns

Year	Month	VETS Index	Thomson Reuters/ S-Network ESG	Equal-Weighted S&P	S&P 500	Russell 3000
2013	01	5.33%	6.65%	5.25%	5.04%	5.49%
2013	02	2.46%	1.30%	0.17%	1.11%	1.33%
2013	03	4.52%	3.95%	4.45%	3.60%	3.92%
2013	04	1.25%	1.37%	1.46%	1.81%	1.64%
2013	05	6.96%	2.64%	3.24%	2.14%	2.36%
2013	06	-0.96%	-1.29%	-1.12%	-1.34%	-1.30%
2013	07	4.83%	5.04%	6.02%	4.95%	5.48%
2013	08	-3.02%	-3.10%	-2.61%	-3.16%	-2.79%
2013	09	3.39%	3.07%	2.90%	2.84%	3.72%
2013	10	3.06%	4.27%	4.54%	4.53%	4.25%
2013	11	7.81%	3.33%	2.04%	2.72%	2.90%
2013	12	2.95%	2.66%	2.27%	2.18%	2.64%
2014	01	-0.25%	-3.55%	-2.79%	-3.42%	-3.16%
2014	02	3.54%	4.80%	4.84%	4.21%	4.74%
2014	03	1.27%	1.84%	1.53%	0.88%	0.53%
2014	04	-0.05%	0.45%	0.07%	0.56%	0.12%
2014	05	0.65%	2.05%	2.41%	2.10%	2.18%
2014	06	1.93%	2.20%	2.65%	2.00%	2.51%
2014	07	-1.40%	-1.63%	-2.59%	-1.66%	-1.97%
2014	08	3.58%	3.62%	4.66%	3.85%	4.20%
2014	09	4.07%	-1.46%	-3.07%	-1.63%	-2.08%
2014	10	3.86%	2.03%	3.44%	2.37%	2.75%
2014	11	1.58%	2.72%	2.09%	2.36%	2.42%
2014	12	1.10%	0.08%	0.80%	-0.33%	0.00%
2015	01	-4.83%	-3.18%	-2.81%	-3.02%	-2.78%
2015	02	7.45%	5.49%	5.52%	5.44%	5.79%
2015	03	-0.96%	-1.47%	-1.46%	-1.79%	-1.02%
2015	04	0.20%	1.04%	0.82%	0.96%	0.45%
2015	05	0.93%	1.25%	0.93%	1.02%	1.38%

continues

TABLE 2. Monthly Index Returns *(continued)*

Year	Month	VETS Index	Thomson Reuters/ S-Network ESG	Equal-Weighted S&P	S&P 500	Russell 3000
2015	06	-1.63%	-2.32%	-2.00%	-1.97%	-1.67%
2015	07	4.17%	0.62%	0.19%	1.81%	1.67%
2015	08	-5.54%	-5.83%	-7.56%	-6.39%	-6.04%
2015	09	-1.31%	-2.59%	-1.00%	-2.56%	-2.91%
2015	10	5.49%	7.67%	7.31%	8.39%	7.90%
2015	11	0.93%	0.37%	0.42%	0.10%	0.55%
2015	12	-0.49%	-1.62%	-4.65%	-2.15%	-2.05%
2016	01	-3.22%	-5.63%	-4.63%	-4.97%	-5.64%
2016	02	-0.13%	0.85%	2.72%	0.01%	-0.03%
2016	03	7.66%	6.99%	6.03%	6.17%	7.04%
2016	04	-0.68%	0.65%	2.20%	0.51%	0.62%
2016	05	2.59%	1.61%	0.76%	1.30%	1.79%
2016	06	0.92%	0.16%	0.21%	0.26%	0.21%
2016	07	1.66%	4.15%	4.21%	3.52%	3.97%
2016	08	0.15%	0.62%	0.35%	-0.08%	0.26%
2016	09	0.47%	-0.12%	-0.51%	-0.32%	0.16%
2016	10	-1.71%	-1.47%	-1.81%	-1.65%	-2.16%
2016	11	8.82%	5.80%	5.36%	3.36%	4.48%
2016	12	3.06%	1.76%	1.52%	2.34%	1.95%
2017	01	1.35%	1.80%	1.59%	1.51%	1.88%
2017	02	4.65%	4.11%	3.82%	4.14%	3.72%
2017	03	-1.28%	0.04%	-0.92%	-0.75%	0.07%
2017	04	0.33%	0.86%	0.91%	1.11%	1.06%
2017	05	1.08%	1.60%	0.66%	1.14%	1.02%
2017	06	1.29%	0.56%	1.21%	0.65%	0.90%
2017	07	2.27%	1.56%	1.47%	1.88%	1.89%
2017	08	-0.56%	0.26%	-0.92%	-0.11%	0.19%
2017	09	3.98%	2.90%	2.41%	1.89%	2.44%
2017	10	2.08%	2.20%	1.48%	2.46%	2.18%
2017	11	4.28%	2.73%	3.59%	2.40%	3.04%
2017	12	1.87%	1.34%	1.18%	1.46%	1.00%
2018	01	4.12%	5.55%	3.85%	4.95%	5.27%
2018	02	-4.24%	-3.53%	-3.97%	-3.59%	-3.69%
2018	03	-1.79%	-2.30%	-1.41%	-3.01%	-2.01%
2018	04	0.51%	-0.06%	0.50%	0.36%	0.38%
2018	05	1.57%	1.98%	2.28%	2.87%	2.82%
2018	06	-0.23%	0.08%	-0.37%	-0.51%	0.65%
2018	07	4.39%	4.15%	3.70%	4.30%	3.32%
2018	08	3.15%	2.68%	2.08%	2.69%	3.51%
2018	09	0.55%	0.84%	0.33%	1.01%	0.17%
2018	10	-5.03%	-7.45%	-5.18%	-7.13%	-6.28%

TABLE 3. MT Best for VETS Index Versus Benchmarks, Summary Statistics for December 31, 2012 through October 30, 2018

	MT Best for VETS Index	Thomson Reuters/ S-Network ESG Index	Equal-Weighted S&P 500 Index	S&P 500 Index	Russell 3000 Index
Annualized Return (Percent)	19.29	13.97	12.70	11.69	13.92
Annual Standard Deviation	10.47	10.45	10.27	10.13	9.94
Sharpe Ratio	1.79	1.29	1.19	1.10	1.35
Downside Monthly Deviation	1.38	1.68	1.68	1.68	1.61
Sortino Ratio	1.07	0.65	0.60	0.55	0.68

Table 3 provides statistical comparisons between the rates of return for the MT Best for VETS Index and the four benchmarks. The first two rows illustrate that the annualized total return for the MT Best for VETS Index during the period was considerably higher than that measured for each of the four benchmarks, while the annualized standard deviations were comparable. The Sharpe Ratio for the MT Best for VETS Index of 1.79, the excess return per unit of deviation, is 32.6 percent higher than that of the Russell 3000 which posted the highest Sharpe Ratio of the four benchmarks; it is more than 60 percent higher than the 1.10 Sharpe Ratio measured for the S&P 500 Index. When downside monthly deviations are isolated using Sortino Ratios, the comparisons are even more striking: 1.07, 0.68, and 0.55 for the MT Best for VETS Index, the Russell 3000, and the S&P 500, respectively. The favorable comparisons with the equal-weighted S&P 500 and the Thomson Reuters S-Network ESG Index demonstrate that the robustness of the MT Best for VETS Index during the period cannot be explained by the weighting scheme or by using standard ESG ratings that do not include military veterans–related KPIs.

It is a given in investment research that return comparisons are always time-period dependent. Nevertheless, at a minimum, these results are impressive enough to warrant further study for portfolios with ESG mandates and/or integrate ESG data into the investment processes.

APPLYING THESE RESULTS TO AN ESG FRAMEWORK

Investing in firms that are sensitive to environmental, social, and governance (ESG) criteria in their operations has been one of the fastest growing areas of investment in the United States since 1993. According to US SIF, the size of the U.S. sustainable and responsible investing (SRI) assets has grown from $0.6 trillion in 1995 to $11.6 trillion at the beginning of 2018. A 2015 joint survey by the CFA Institute and the Investor Responsibility Resource Center (IRRC) found that 73 percent of global respondents said they factor ESG issues into their investment processes. Furthermore, respondents cited the following as the top three reasons they take ESG issues into account: managing investment risk, ESG performance as a proxy for management quality, and client/investor demand. The top ESG factors considered are: board accountability, development of human capital, and executive compensation.

Many research studies, including academic and non-academic sources, have studied the effect that the inclusion of such factors has on investment returns. A 2018 joint report from the Asset Management Working Group of the United Nations Environmental Programme Finance Initiative and Mercer Consulting reviewed 20 academic studies focusing on various aspects of ESG investing. Some focused on one pillar, others on all three as a group. Ten were judged as showing positive links on ESG and performance, seven were classified as neutral, and three seen as negative. Overall, the findings are inconclusive from the perspective that ESG has not passed the academic threshold to be considered a market anomaly delivering superior risk-adjusted returns.

Diversity has become one of the most actioned issues in ESG today. From 1993 through 2017, the percentage of S&P 500 companies with diversity programs has grown from less than 20 percent to more than 70 percent. Studies by consulting and research firms Cambridge Associates, Catalyst, Credit Suisse Research Institute, ISS Corporate Solutions, McKinsey, and MSCI all report superior investment returns and financial metrics over a variety of time intervals for companies with at least three women on the board of directors. Two of the country's largest asset managers, SSgA and BlackRock, have not only promulgated the findings of these studies but have put into effect proxy voting policies voting against management on all issues unless there are at least three or two (respectively) women on the board of directors. Complementing these findings, the U.S. Office of the Comptroller of the Currency put out an economics working paper in June 2016 (St. Claire et al. 2016). The study found that companies with at least three women on the board performed significantly better during the financial crisis. Despite all this empirical evidence, academia remains unconvinced that the having women on the board brings tangible benefits to companies. Wharton management professor Katherine Klein strongly demurs (Klein 2017). She claims that research conducted by consulting firms and financial institutions is not as rigorous as peer-reviewed academic research, adding that the academic studies neither support nor disprove these findings.

Empirically, the growth of dollars committed to investment processes taking ESG into account continues despite the lack of conclusive academic support. Key reasons stated by investors included human capital development and risk control. Again, despite the lack of peer-reviewed academic support, the actions of major investors taken in response to the empirical studies impacts proxy voting on trillions of dollars in assets. The reasons given go beyond the reported improvement in investment returns to better overall financial ratios and much better performance during times of stress.

The parallels are striking. Human capital development, diversity of opinions and experiences, ability to hold up under pressure and adapt to new situations, risk control, and potential improvement of investment returns are all the benefits attributable to superior corporate treatment of military veterans detailed in this research. The proposition that hiring veterans is a source of competitive advantage and contributes to the social good is consistent both with empirical evidence (Benmelech and Frydman 2015; Atuel et al. 2017; Short, Zachary, and Ketchen 2018) and with advocacy for the employment of veterans (IVMF 2012; Haynie 2016). Moreover, the documented success of CEOs with military experience during downturns directly relates to ESG investors' stated objectives of identifying companies with superior management quality. Thus, there is ample reason for ESG data providers and the institutional investors who are their customers to consider including veteran-related KPIs.

CONCLUSION

The state of knowledge on military veteran employment has not yet coalesced. The available research, with notable exceptions, is reacting to the pressing employment needs of veterans rather than providing a conceptually rigorous guidance for researchers, policymakers, firms, and investors. Thus, much of the study of military veterans and their impact on their civilian employers involves literature that falls in a gray area between standard publishing and self-published opinions. In this gray area, respected organizations such as government agencies, advocacy groups, and foundations produce an impressive array of monographs, reports, and other such documents that are amicable to their respective points of view. This knowledge cannot be ignored, especially given the dearth on this topic in the standard publishing literature. Thus, this study has relied on diverse sources to argue that the civilian employment of military veterans is both consistent with a firm's corporate and social responsibility objectives, and a source of economic value to the firm. This study has argued that positive corporate treatment of veterans satisfies both a firm's CSR/ESG initiatives and goals and produces tangible benefits in terms of a firm's performance and resilience in the face of financial and operational stress. The positive treatment of military veterans by their corporate employers is consistent with the superior social awareness by firms cited by investors for incorporating CSR/ESG data into their asset allocation decisions. To the extent that a firm's inclusion in the MT Best for VETS Index captures the quality of the firm's social stance toward military veterans in its ranks, then firms that treat veterans well generate a higher return per unit of total risk as compared to popular investment benchmarks. Thus, an investor in the MT Best for VETS Index should have every expectation of at least competitive, if not superior, performance. In fact, the balance of the evidence suggests that firms where military veterans thrive are the sort of firms that achieve superior rates of return.

References

Blank, Herbert, Gregg Sgambati, and Zack Truelson. 2016. "Best Practices in ESG Investing." *Journal of Investing* 25, no. 2: 103–12.

Citroën, Lida. 2018. "Insights from a Veteran Hiring Specialist." https://www.military.com/hiring-veterans/resources/veteran-hiring-specialist.html.

Cohary, Sharon. 1990. "Employment and Unemployment Among Vietnam-era Veterans." *Monthly Labor Review* 113, no. 4: 22–30.

Davis, Valerie, and Sarah Minnis. 2017. "Military Veterans Transferrable Skills: An HRD Practitioner Dilemma." *Advances in Developing Human Resources* 19, no. 1: 6–13.

Dillahunt-Aspillaga, Christina, et al. 2018. "Employment Stability in Veterans and Service Members with Traumatic Brain Injury: A Veterans Administration Traumatic Brain Injury Model Systems Study." *Archives of Physical Medicine and Rehabilitation* 99, no. 2.1: S23–32.

Faberman, Jason, and Taft Foster. 2013. "Unemployment Among Recent Veterans During the Great Recession." *Economic Perspectives* 37, no. 1: 1–13.

Gabriel, Paul. 2017. "An Empirical Assessment of the Wage Premium for American Veterans of World War II." *Social Science Journal* 54, no. 3: 329–35.

Greengard, Samuel. 2012, February 22. "Fighting for Employment: Veterans in the '40s and Today." *Workforce Magazine*. https://www.workforce.com/2012/02/22/fighting-for-employment-veterans-in-the-40s-and-today/.

Gross, Natalie. 2018, May 7. "Best for Vets Employers 2018: Methodology." https://www.militarytimes.com/rankings/2018/05/07/best-for-vets-employers-2018-methodology/.

Halbritter, Gerhard, and Gregor Dorfleitner. 2015. "The Wages of Social Responsibility—Where Are They? A Critical Review of ESG Investing." *Review of Financial Economics* 26, (September 2015): 25–35.

Haynie, J. Michael. 2016. "Revisiting the Business Case for Hiring a Veteran: A Strategy for Cultivating Competitive Advantage." (Workforce Readiness Briefs, Paper No. 2). Syracuse, NY: Institute for Veterans and Military Families, Syracuse University. https://ivmf.syracuse.edu/wp-content/uploads/2018/11/Revisiting-Business-Case-for-Hiring-a-Veteran-Full-Report.pdf.

Hicks, Louis, Eugenia L. Weiss, Jose E. Coll, and Robert A. McDonald. 2017. *The Civilian Lives of U.S. Veterans: Issues and Identities*. Santa Barbara, CA: Praeger.

Institute for Veterans and Military Families (IVMF). 2012. "The Business Case for Hiring a Veteran: Beyond the Clichés." Syracuse, NY: Institute for Veterans and Military Families, Syracuse University. https://ivmf.syracuse.edu/wp-content/uploads/2016/06/The-Business-Case-for-Hiring-a-VeteranACC_2.21.18.pdf.

Johnson, Tim. 2014. "Service After Serving: Does Veterans' Preference Diminish the Quality of the US Federal Service?" *Journal of Public Administration Research* 25, no. 3: 669–96.

Klein, Katherine. 2017, May 18. "Does Gender Diversity on Boards Really Boost Company Performance?" Philadelphia, PA: Wharton School of the University of Pennsylvania. http://knowledge.wharton.upenn.edu/article/will-gender-diversity-boards-really-boost-company-performance/.

Korn/Ferry International. 2005. "Military Experience and CEOs: Is There a Link?" https://www.kornferry.com/institute/download/view/id/17026/aid/190.

Meglesh, Michael. 2017, February 28. "Caring for the Veterans: The Civil War and the Present." *Journal of the Civil War Era*. https://www.journalofthecivilwarera.org/2017/02/caring-veterans-civil-war-present/.

Military Friendly. 2018. "Military Friendly® Employers Survey." http://militaryfriendly.com/military-friendly-employers-methodology/.

Monster.com. 2018. "The Monster and Military.com 2018 Best Companies for Veterans." https://www.monster.com/career-advice/article/best-companies-for-veterans.

Morin, Rich. 2011, December 8. "The Difficult Transition from Military to Civilian Life." http://www.pewsocialtrends.org/2011/12/08/the-difficult-transition-from-military-to-civilian-life/.

Renneboog, Luc, Jenke Ter Horst, and Chendi Zhang. 2008. "Socially Responsible Investments: Institutional Aspects, Performance, and Investor Behavior." *Journal of Banking and Finance* 32, no. 9: 1723–42.

Ruh, Debra, Paul Spicer, and Kathleen Vaughan. 2009. "Helping Veterans with Disabilities Transition to Employment." *Journal of Postsecondary Education and Disability* 22, no. 1: 67–74.

Short, Jeremy C., Miles A. Zachary, and David J. Ketchen. 2018. "Entrepreneurial Orientation Rhetoric and Franchise System Size: The Moderating Role of Military Veteran Recruitment." *Journal of Business Venturing Insights* 10, (November 2018): e00097.

St. Claire, Laura. 2016. "Braving the Financial Crisis: An Empirical Analysis of the Effect of Female Board Directors on Bank Holding Company Performance." (Economics Working Paper 2016-1). Washington, DC: Office of the Comptroller of the Currency.

Stone, Christopher, and Dianna L. Stone. 2015. "Factors Affecting Hiring Decisions About Veterans." *Human Resources Management Review* 25, no. 1: 68–79.

VETS Indexes. 2018 “Giving Back: Making a Social Impact.” https://vetsindexes.com/giving-back/.

Vick, Brandon, and Gabrielle Fontanella. 2017. “Gender, Race and the Veteran Wage Gap.” *Social Science Research* 61 (January 2017): 11–28.

Wansink, Brian, Collin R. Payne, and Koert von Ittersum. 2008. “Profiling the Heroic Leader: Empirical Lessons from Combat-Decorated Veterans of Word Word II.” *Leadership Quarterly* 19, no. 5: 547–55.

Appendix A: Timeline Relating to Veterans and Employment

- The Continental Congress of 1776 established the funding of pensions to disabled soldiers who fought in the Revolutionary War.
- In 1811, the federal government authorized the first domiciliary and medical facility for veterans.
- During the Civil War, Congress passed The General Pension Act of 1862 which provided disability payments. President Lincoln signed Congressional legislation which created the National Asylum for Disabled Volunteer Soldiers, the forerunner of the modern-day U.S. Department of Veterans Affairs, in March 1865. Hundreds of thousands of Union veterans received treatment for and assistance with their disabilities. On the jobs front, newspapers reinforced awareness of the scarceness of job opportunities for veterans. Articles and editorials praising local merchants that hired veterans were prevalent, but even more ubiquitous were spotlights on shame that the country could not better take care of the soldiers that preserved the Union.
- After the Spanish–American War, the first non-governmental organization (NGO) advocating for veterans' rights, the Veterans of Foreign Wars (VFW), was formed in 1899.
- As the United States entered World War I in 1917, Congress established a new system of veterans benefits, including programs for disability compensation, insurance for service personnel and veterans, and vocational rehabilitation for the disabled.
- In 1919, another prominent NGO, the American Legion, was established and immediately took to the task of facilitating training and providing introduction to companies open to hiring veterans. They also lobbied chambers of commerce to adopt policies giving preferential hiring treatment to veterans.
- By the 1920s, three different federal agencies administered the various benefits: the Veterans Bureau, the Bureau of Pensions of the Interior Department, and the National Home for Disabled Volunteer Soldiers. Again, the hiring of veterans by companies was greatly encouraged by major municipal chambers of commerce.
- In 1940, while the United States was still debating whether to enter World War II, Congress passed the Veterans Reemployment Rights (VRR) law in 1940 prescribing that members of armed forces had the right to return to the civilian jobs they left in order to serve in the armed forces.
- The other landmark piece of legislation for veterans' rights and jobs was signed into law by Franklin D. Roosevelt in 1944: The Servicemen's Readjustment Act, better known today as the GI Bill. Among other things, the GI Bill appropriated $500 million for the construction of facilities for veterans, authorized unemployment, offered job placement aid for vets, and provided payment for up to four years of education and training.
- Our country's general mood was reflected not only by government actions but in the corporate sector as well. "… There was an enormous amount of

national pride," says Charles Leo, a professor of management at Pepperdine University's Graziadio School of Business and Management. "If there was a choice to make, the veteran would be the one who was hired."

- In contrast, veterans returning from Vietnam did not find an atmosphere of national pride, despite a Congressional assistance act in 1974 and continued support by advocacy groups and NGOs. They were not given preference over non-veterans in most corporate hiring decisions. In many cases, the reverse was true. The Bureau of Labor Statistics reports that the veterans of this war, especially those that had actually served in Vietnam, had the highest unemployment rates and the shortest first job tenures.
- Starting with the strengthening of the GI Bill in 1984, the government and NGOs were back in full force encouraging companies to hire veterans. A new groundswell of support followed the first Gulf War. The Uniformed Services Employment and Reemployment Rights Act (USERRA) of 1984 strengthened veterans' rights to return to jobs left before the war and encouraged veterans' hiring in general.
- About the same time, the Transition Assistance Program (TAP), a U.S. Department of Defense–led program that provides service members with information and resources to prepare them for their civilian life, was established.
- The Post-9/11 GI Bill is an education benefit program for individuals who served on active duty after September 11, 2001. It provides eligibility for tuition benefits and career counseling at colleges, universities, trade schools, and for on-the-job training, apprenticeships, and flight schools. It also covers tutorial assistance, licensing (e.g., attorney, cosmetology), and certification tests (e.g., surgical technician, financial planner).
- A lot of pro-hiring legislation in the past decade has occurred at the state level. Since 2011, 37 states have enacted legislation allowing private employers to give hiring preference to honorably discharged veterans.
- In August 2017, the "Forever GI Bill," officially the Harry W. Colmery Veterans Educational Assistance Act, was signed into law. The bill focused on educational, training, and housing benefits for veterans, and for the first time had no expiration date associated with these benefits.
- Most recently, the U.S. Department of Veterans Affairs officials announced plans to partner with nonprofit Social Finance to expand use in VA medical centers of a recently developed "Individual Placement and Support" program. The program is designed to match individuals with mental health challenges to potential job opportunities built around their workplace needs. Nearly 500 veterans in the New York and Boston region will take part in what officials hope is the first wave of a broader deployment of the resource.

Appendix B: Government Departments, Agencies, and NGOs with Programs

The following is a list, by no means all-inclusive, of governmental departments and NGOs dedicated to helping U.S. military veterans in the workplace.

1. America's Heroes at Work
2. Department of Labor's Veterans' Employment and Training Service
3. Department of Veterans Affairs: Jobs
4. Department of Veterans Affairs: Vet Success
5. Department of Veterans Affairs: Vocational Rehabilitation and Employment Program
6. Hire America's Heroes
7. Hire Heroes USA
8. Military Spouse Career Center
9. Military Times Reboot Camp
10. Military.com Veteran Careers
11. Paralyzed Veterans of America
12. Return to Work
13. S.A.V.E. Farm
14. Skillbridge, a Department of Defense Program
15. USO Pathfinder
16. U.S. Office of Personnel Management
17. Vet Biz
18. Vet Jobs
19. Veteran and Military Business Owners Association (VAMBOA)
20. Veterans Employee and Training Service
21. Veteran Employment
22. Veteran Mentor Network
23. Veterans Farm
24. Vocational Employment Counseling Center for veterans with spinal-cord injuries

Appendix C: Sources of ESG and Related Data

Institutional Shareholder Services Inc. (ISS) is the world's leading provider of corporate governance and responsible investment (RI) solutions for asset owners, asset managers, hedge funds, and asset service providers. ISS's solutions include: objective governance research and recommendations; RI data, analytics, and research; proxy voting and distribution solutions; turnkey securities class-action claims management; and reliable global governance data and modeling tools.

MSCI ESG Research provides in-depth research, ratings, and analysis of the environmental, social, and governance–related business practices of thousands of companies worldwide. Research is designed to provide critical insights that can help institutional investors identify risks and opportunities that traditional investment research may overlook. Clients use these data to help implement their responsible investment objectives.

The Military Times* was established in 1940, originally as the Army Times Publishing Company, to provide groundbreaking journalism about the military community. Since that time, its essential mission has been to serve the needs of those who serve and have served. As such, a key function has been to highlight, measure, and promote how government, corporations, and communities support the needs of soldiers and military veterans.

Sustainalytics is a global leader in ESG and corporate governance research and ratings. Sustainalytics supports hundreds of the world's foremost investors who incorporate ESG and corporate governance insights into their investment processes.

The Thomson Reuters/S-Network ESG Best Practices Ratings* establish common standards for rating the environmental, social, and governance of corporate entities. These ratings have been engineered to be actionable for comparative decisions. The goal of this joint initiative is to provide an engine of transparency encouraging consistent and actionable disclosure from institutions around the world.

* The author thanks these providers for their major data contributions.

Appendix D: VETS Index: Employers—From Surveys to Index Selection Data

Year	Surveys Received	Selected to Best for Vets: Employers Rankings	Public Companies Ranked	Companies Selected to Index
2016	131	75	57	34
2017	144	82	60	37
2018	202	100	67	44

Review of Business: Interdisciplinary Journal on Risk and Society is published twice a year.
ISSN: 0034-6454

The journal publishes basic research on how business manages and engages with risk or uncertainty, and basic research on the resulting effect on society, so as to produce evidence-based quality knowledge that can impact the practice of business. The impact of this journal flows from its reach beyond the academy. This is a peer-reviewed academic journal.

The Peter J. Tobin College of Business
St. John's University
New York

www.stjohns.edu/ROB (for submissions, style guide, publishing agreement, and standards of integrity)

ROBJournal@stjohns.edu (for inquiries and communications)