THE POLITICAL POLARIZATION OF CORPORATE AMERICA

Vyacheslav Fos
Elisabeth Kempf
Margarita Tsoutsoura

The Political Polarization of Corporate America
Vyacheslav Fos, Elisabeth Kempf, and Margarita Tsoutsoura
NBER Working Paper No. 30183
June 2022
JEL No. G3

ABSTRACT

Executive teams in U.S. firms are becoming increasingly partisan. We establish this new fact using political affiliations from voter registration records for top executives of S&P 1500 firms between 2008 and 2020. The new fact is explained by both an increasing share of Republican executives and increased assortative matching by executives on political affiliation. Departures of politically misaligned executives are value-destroying for shareholders, implying the increasing political polarization of corporate America may not be in the financial interest of shareholders.

Vyacheslav Fos
Carroll School of Management
Boston College
140 Commonwealth Avenue
Fulton Hall 330
Chestnut Hill, MA 02467
vyacheslav.fos@bc.edu

Elisabeth Kempf
Booth School of Business
University of Chicago
5807 South Woodlawn Avenue
Chicago, IL 60637
and NBER
elisabeth.kempf@chicagobooth.edu

Margarita Tsoutsoura
SC Johnson College of Business
Cornell University
Ithaca, NY 14853
and NBER
tsoutsoura@cornell.edu

1. Introduction

A growing literature documents a large increase in polarization across political parties in the U.S. (e.g., Iyengar, Sood, and Lelkes, 2012; Mason, 2013; Lott and Hassett, 2014; Mason, 2015; Gentzkow, 2016; Boxell, Gentzkow, and Shapiro, 2017). Party identification is now a more significant predictor of Americans' fundamental political values than any other social or demographic divide (Pew Research Center, 2017). Social groups, such as families and neighborhoods, are becoming increasingly politically homogeneous. By contrast, we know little about political polarization in the workplace, how it has changed over time, and whether it affects firm value.[1]

To fill this gap, we study political polarization among the most important decision-makers in the firm: executive teams. Top executives in publicly listed firms provide an interesting setting for several reasons. First, due to SEC disclosure requirements, their identities are publicly observable, allowing us to link them to voter registration records and obtain their party affiliations. Second, they are responsible for designing and executing the most important corporate decisions (Bertrand and Schoar, 2003). Recent studies find that political partisanship shapes the perception of the economy and economic decisions not only by households (e.g., Mian, Sufi, and Khoshkhou, 2021; Meeuwis, Parker, Schoar, and Simester, 2021), but also by economically sophisticated agents in high-stakes environments (Kempf and Tsoutsoura, 2021; Dagostino, Gao, and Ma, 2020; Gormley, Kaviani, and Maleki, 2021). Therefore, political polarization in executive teams may have important implications for firm value.

Whether changes in political polarization of executive teams should be similar to trends observed in the general population is a priori not clear. The workplace has historically been more politically diverse and provided more opportunities for cross-party interactions than other settings (Mutz and Mondak, 2006; Hertel-Fernandez, 2020). For example, Mutz and Mondak (2006) show the workplace is much more likely to expose individuals to people of dissimilar perspectives than are other contexts, such as the family, the neighborhood, or the voluntary association. This evidence suggests alignment of political views may be less important in professional contexts. Moreover, investors, regulators, and stock exchanges have applied pressure to increase diversity

---

[1]Notable exceptions include Gift and Gift (2015), who explore how partisanship affects hiring decisions in a randomized experiment, and contemporaneous work by Colonnelli, Pinho Neto, and Teso (2020), who show firm owners in Brazil are more likely to hire employees who share their political affiliation (although they do not find an increasing trend).

in the C-suite and on boards of directors (e.g., Wall Street Journal, 2021), which may also be contributing to greater political diversity.

Combining Execucomp data on top executives in U.S. S&P 1500 firms with voter registration records, we show executive teams became more partisan between 2008 and 2020. We define partisanship as the degree to which a single party dominates political views within the same executive team. More specifically, we measure the partisanship of executive teams as the probability that two randomly drawn executives from the same team are affiliated with the same political party.[2] Based on this measure, we find a 7.7-percentage-point increase in the average partisanship of executive teams over our sample period. As a reference point, this increase is almost three quarters of the decrease in gender homogeneity that we observe over the same time period. The increasing partisanship of executive teams is even more remarkable in light of the increasing diversity along the gender dimension, which should, if anything, lead to greater diversity in political views. We can further rule out the possibility that the increase in partisanship reflects executives' strategic behavior to appear more politically aligned with their peers.

What drives the increase in the political polarization of executive teams? One possibility is that the increase in partisanship is a reflection of changes in the share of Republicans and Democrats in the overall population of executives. Alternatively, the increase in partisanship could result from an increased tendency of executives to match with like-minded partisans. Using Monte Carlo simulations to generate measures of randomly occurring partisanship, we document that 61% of the increase in partisanship is driven by an increased tendency of executives to match with other executives who share their political views. The remaining 39% is driven by the executive population as a whole becoming more politically homogeneous (i.e., Republican).

To provide a more formal test of the increase in assortative matching, we estimate a dyadic regression (see Colonnelli, Pinho Neto, and Teso, 2020). A unit of observation in this regression is a hypothetical executive-pair, and the outcome variable is an indicator equal to one if the pair works in the same firm. An important advantage of the dyadic approach is that we can control for the influence of other executive characteristics (gender, race, and age) on executive matching. Our results show executives who share the same political party are 34% more likely

---

[2]Throughout this paper, we use the terms partisanship, political polarization, and political homogeneity interchangeably.

to work in the same firm. Moreover, we find the role of political views in determining executives' assortative matching is strengthening over time, particularly during the last years of our sample period. Further decomposing the increase in assortative matching, we find most of the effect is driven by increased sorting on political ideology into geographies.[3] Sorting into industries and assimilation to other team members via within-person changes in party affiliation also helps explain the positive time trend, but their role is quantitatively smaller. Interestingly, the increase in assortative matching of executives is more than twice as large as what would be expected if executives exhibited the same trend as the population of all registered voters in the same state or in the same Metropolitan Statistical Area (MSA).

To further support the role of political views in executive-team formation, we document evidence consistent with political views affecting executives' decision to leave the firm. We find that, within a given firm-year, executives who are politically misaligned with the majority of the team have a 3.2-percentage-point-higher probability of leaving the firm than executives whose views are not aligned with the rest of the team. This effect corresponds to a 24% increase in the likelihood of departure relative to the unconditional turnover probability of 13%. The result holds after the inclusion of firm $\times$ year fixed effects; that is, we can control for any drivers of executives' departure decisions related to firm fundamentals. Moreover, we observe again an increase in the effect over time.

An important remaining question is whether the departure of politically misaligned executives is good or bad for shareholders. From a theoretical perspective, the implications of increased political homogeneity on shareholder value are ambiguous. On one hand, greater political homogeneity may be bad for shareholders if it exacerbates individual partisan biases in economic decision-making or if it leads to inefficient hiring and firing decisions. On the other hand, if partisan disagreement prevents executives from working together efficiently as a team, greater political homogeneity may be in the interest of shareholders because it avoids deadlock (e.g., Donaldson, Malenko, and Piacentino, 2020). To shed light on this important question, we study abnormal stock returns around the departures of politically aligned and misaligned executives. Departures of misaligned executives trigger substantially larger losses for shareholders, indicating

---

[3]Although we continue to find evidence of assortative matching on political ideology within geographies, this type of matching does not exhibit a positive time trend.

greater political homogeneity in the executive suite is likely not in the interest of shareholders. The incremental losses to shareholders around executive departures amount to \$238 million for executives who are politically misaligned. We also find evidence that departures of misaligned CEOs are more likely to be involuntary.

We contribute to the growing literature on the connection between political partisanship and economic decisions. Most existing studies have focused on households and study the effect of partisanship on household consumption (Gerber and Huber, 2009; McGrath, 2017; Gillitzer and Prasad, 2018; Mian, Sufi, and Khoshkhou, 2021; Makridis, 2019), real estate decisions (McCartney and Zhang, 2019), and portfolio allocation decisions (Addoum and Kumar, 2016; Bonaparte, Kumar, and Page, 2017; Meeuwis, Parker, Schoar, and Simester, 2021; Giglio, Maggiori, Stroebel, and Utkus, 2021). More recently, studies have documented that partisanship also affects the economic decisions of more sophisticated individuals in high-stakes environments, such as credit analysts (Kempf and Tsoutsoura, 2021), loan officers (Dagostino, Gao, and Ma, 2020), entrepreneurs (Engelberg, Guzman, Lu, and Mullins, 2021), mutual fund managers (Cassidy and Vorsatz, 2021), and judges (Gormley, Kaviani, and Maleki, 2021). Recent work also explores the real effects of partisanship on firms. Duchin, Farroukh, Harford, and Patel (2019) show the political distance between firms helps explain firms' M&A decisions, and Rice (2020) investigates the relationship between political partisanship of executives and firms' investment decisions. To the best of our knowledge, this study is the first to document a rise in political polarization among executive teams in the U.S. and to explore the consequences of this trend for firm value.

We also contribute to the literature that studies diversity in the context of executive teams or boards of directors. Prior literature has examined the role of demographic similarities (e.g., Westphal and Zajac, 1995) and CEOs' political preferences (Cohen, Hazan, and Weiss, 2021) on the selection of board members and members of the executive suite. Adams and Ferreira (2009), Ahern and Dittmar (2012), and Nguyen, Locke, and Reddy (2015) study the effect of boardroom gender diversity on firm value. A stream of studies focuses on the effect of diversity of independent directors' backgrounds or expertise on corporate governance and firm performance (e.g., Masulis, Wang, and Xie, 2012; Fich, 2005). Bernile, Bhagwat, and Yonker (2018) create an index of board diversity that combines director expertise, demographic characteristics, and

education and find greater board diversity leads to lower volatility and better firm performance.[4]

A key difference between these papers and ours is that we focus on political diversity, which features much less prominently in the public debate about corporate boards. Yet, political affiliation increasingly predicts differences in social attitudes across individuals, as Bertrand and Kamenica (2018) show. In addition to our paper, a few other studies have analyzed the degree of political alignment within the firm's leadership. Using political contributions to measure political alignment between CEOs and board members, Lee, Lee, and Nagarajan (2014) find a higher degree of alignment has an adverse effect on board independence, leading to managerial entrenchment and lower firm value. Moreover, Bonica (2016a) documents substantial heterogeneity in the political preferences of directors both across and within firms. Our study differs in that we use voter registration records rather than political contributions to infer political preferences and we focus on the time trend in ideological homogeneity.

2. Data Sources and Sample Description

2.1. Execucomp

We obtain information on the firm's top-earning executives from the Execucomp database, maintained by Standard & Poor's. Execucomp covers all companies included in the S&P 1500 index. It uses compensation data from firms' annual proxy statements (form DEF 14A), in which firms are required to report compensation data for the five most highly compensated executives. In addition to compensation information, Execucomp contains the full names of the executives, their age, and their role in the firm. The coverage starts in 1992, but we restrict the sample to years 2008 to 2020 because this period has the best coverage in the voter registration data used to infer party affiliation (see below). After restricting the sample to the above time period, the Execucomp database spans 29,607 executives in 2,612 firms.

We also obtain information on executives' gender from Execucomp. To infer executives' race from their first and last names, we use the API name-prism.com (see Ye, Han, Hu, Coskun, Liu, Qin, and Skiena (2017) for details). We have verified the accuracy of the API using voter

---

[4]In a different setting, Evans, Prado, Rizzo, and Zambrana (2022) find a positive relationship between the political diversity of a fund's management team and fund performance, and Vorsatz (2021) finds partisan mutual fund teams had lower fund returns during the COVID-19 crisis.

registration data from North Carolina, which contain information on voters' race. Among the executives that we were able to match to voter records from North Carolina, the accuracy of the API-predicted race (white vs. non-white) is 97%.

2.2. Political Affiliation

Our political-affiliation measure comes from voter registration records from California (Contra Costa, Marin, San Francisco, San Mateo, Santa Clara, Sonoma), Colorado, Illinois, Massachusetts (Boston, Cambridge), North Carolina, New Jersey, New York (New York City), Ohio, and Texas. We restrict our sample to these locations because the other states either do not share voter registration records or do not track voters' party affiliations over time.[5][6] The voter registration records contain identifying information, such as the voter's name, date of birth, and mailing address, as well as the voter's party affiliation at the time of a given election and an indicator for the election(s) in which the individual has voted. The elections covered are general, primary, and municipal elections going back at least until 2008. In states with party registration (e.g., New York, New Jersey), we infer political affiliation based on the voter's registration status at a given point in time. In all other states, we infer political affiliation based on the primaries in which the individual has voted. For example, if a voter has most recently voted in a Republican primary, we will classify her as Republican. In the Internet Appendix, available on the authors' websites, we describe in more detail the information available in the voter registration records of each location and how they were obtained.

For the purpose of our study, the voter registration data have important advantages over the more commonly used data on financial contributions to political parties, candidates, and committees, found on the Federal Election Committee (FEC) website.[7] First, voter registrations are more likely to reflect individuals' political views than are their political contributions, which could be made for other reasons. An ongoing debate among political scientists concerns the extent to which political contributions reflect consumption or investment motives, that is, the extent to which individuals donate in order to derive a consumption benefit or to influence political

---

[5]We use county-level data for California and city-level data for New York City, Boston, and Cambridge, because the statewide data for California, New York, and Massachusetts do not contain historical party affiliations.

[6]In Section 3.5 below, we show that our main findings also hold in a much broader sample of states that only provide a snapshot of voters' party affiliations, alleviating potential concerns about external validity.

[7]See https://www.fec.gov/.

outcomes (e.g., Gordon, Hafer, and Landa (2007)). Political donations may also be influenced by social pressures. For example, Babenko, Fedaseyeu, and Zhang (2019) provide evidence that CEOs influence the political contributions of other employees. Second, a significant number of contributions cannot be linked to any party, because the recipient political committee is not affiliated with a political party or party candidate. As we show below (and as Cohen, Hazan, Tallarita, and Weiss (2019) show), the number of contributions that cannot be linked to a political party has increased substantially in recent years. Although this trend could, in principle, reflect more neutral political preferences by executives, it may also reflect greater obscurity of political committees. Third, a non-trivial share of executives (31% in our sample) contributes to both parties, making inferring a clear party preference difficult. Finally, party registration has been shown to be a good predictor of self-reported party identification. Pew Research Center (2018) matches commercial voter files, which are based on data from voter registration records, with a large-scale survey on political attitudes and voter behavior and show that, for more than two-thirds of the panelists, the party affiliation in the commercial voter file correctly infers the self-reported party identification. The accuracy is even higher for states with party registration, such as New York.

2.3. Additional Data Sources

We collect financial information and Global Industry Classification Standard (GICS) codes for the companies in our sample from Compustat and stock return information from CRSP. Throughout the paper, we define industries based on GICS sectors. To obtain the address of the firm's historical headquarters, we use the information found in the header section of the firm's 10-K/Q filings.[8] When location data from historical filings are unavailable, we use address information from Compustat.

To track the location of executives who move from one state to another, we use the Infutor dataset. Infutor provides address histories for more than 160 million U.S. residents, covering up to 10 addresses or 30 years of address history for each individual. Their data are aggregated from various public sources such as phone connects and disconnects, real estate deed and property

---

[8]We thank Bill McDonald for making these data available on the University of Notre Dame's Software Repository for Accounting and Finance at https://sraf.nd.edu/data/augmented-10-x-header-data/.

data, mover-reported address changes, and professional registries. In addition to address histories, Infutor also contains individuals' first and last names, year of birth, and gender. In the Internet Appendix, we describe in detail how we link the executives in our sample to address histories from Infutor.

2.4. Sample Construction

Of the 29,607 executives from Execucomp, 16,958 (=57%) are located in one of the nine states for which we have historical voter registration data. In terms of their aggregate market value, firms in these nine states represent 62% of all Execucomp firms.

Because we require information on political-party affiliation, we further restrict the sample to executives who can be matched to a unique voter registration record. In a first step, we use first name, middle initial, and last name to merge executives with voters, keeping only exact matches with age gaps less than or equal to three years if available. For executives who are matched to multiple voter records, we apply an additional filter that removes all matches located outside a 50-mile radius around the firm's headquarters. In a second step, we take all executives who could not be matched to a unique voter in the first step and merge them with voter records using the same procedure as in the first step above, except we use only the first name and last name of the executive. Our merging procedure is described in more detail in the Internet Appendix. We are able to match 6,679 (=41% of) executives to a unique voter. This match rate is comparable to previous studies using U.S. voter registration records (Kempf and Tsoutsoura (2021)). Once we remove unaffiliated executives and executives who are affiliated with parties other than the Democratic and Republican parties, our sample spans 4,343 partisan executives working in 1,282 firms.

Throughout our analysis, we further restrict the sample to firms with at least two matched executives, reducing the sample to 3,786 executives in 941 unique firms. In the Internet Appendix, we plot descriptive statistics for this sample. The number of unique firms is more than 380, and the number of unique executives is more than 1,000 in all calendar years. Partisan executives represent, on average, between 46% and 53% of the executives in these firms, which corresponds to approximately 2.6 to 2.8 executives for the average firm-year. In the Internet Appendix, we show the geographical distribution of firms and executives across the nine states. The majority

8

of firms are located in California, followed by Texas, Illinois, and Ohio.

Even though our analysis does not require a random sample, we would still like to understand the potential differences between our sample and the overall population of executives and firms in the Execucomp database. First, we investigate whether executives whom we are able to match to a voter record run different types of companies. The results, reported in the Internet Appendix, show executives for whom we are able to obtain party affiliation run firms with slightly lower cash holdings and higher investment rates than firms run by executives without a matching voter record. We do not find significant differences along several other observable firm characteristics, including size, leverage, cash flow, Tobin's Q, and sales growth. Second, in terms of selection based on observable executive characteristics, we do not expect executives who are registered voters to be representative of the overall population of U.S. executives. A comparison of matched and non-matched executives, also reported in the Internet Appendix, reveals that CEOs, white executives, and executives with longer tenure are more likely to be matched to a voter record. Our results below should therefore be interpreted as measuring the extent of partisanship among executives who are registered voters. We also report robustness tests in which we treat unmatched executives as unaffiliated voters.

2.5. Summary Statistics

Table 1 reports summary statistics for the four samples used in our subsequent analysis. Across all panels, we restrict the sample to executives who are Democrat or Republican as well as to executive teams with at least two partisan executives. Panel A reports statistics for the firm-level variables and the unit of observation is the firm-year. The average share of Democratic and Republican executives is 31.0% and 69.0%, respectively, with a standard deviation of 32.7%. The average partisanship, which we measure as the probability that two randomly drawn executives from the same team belong to the same party and which we discuss in more detail below, is equal to 63.8%. We observe a high degree of homogeneity for gender and race: the average gender homogeneity, measured as the probability of two randomly drawn executives having the same gender, is 80.6%, and the average racial homogeneity, measured as the probability of two randomly drawn partisan executives having the same race (white vs. non-white), is 93.2%. All variables are defined in Appendix Table A.1.

[Insert Table 1 here]

Panel B reports summary statistics for our dyadic sample, where the unit of observation is an executive pair-year. The unconditional probability that two executives work in the same firm is 0.16%, and the probability that they share the same party affiliation is 58.1%. Panel C reports statistics for the executive-year panel used to study executive departures. The unit of observation is the executive-year. The average likelihood of an executive's departure is 13.4%. The average tenure in the current position is 6.8 years, 7.6% of executives are older than 65 years, 88.9% of executives are white, and 10.4% are women.

Panel D reports summary statistics for our sample of executive departures. The average cumulative abnormal return over trading days (0,+1) around the announcement of an executive departure is ca. –20 basis points. 18.6% of executives depart on the same as the announcement of their departure ("immediate" departures), and 23.5% of CEO departures are involuntary.

3. Aggregate Trends in the Partisanship of U.S. Executive Teams

3.1. Trends in the Political Affiliation of Executives

Figure 1, Panel A, reports the shares of executives who are registered as Democrats and Republicans over time. The majority of executives are affiliated with the Republican Party. The share of Republican executives increases from 63% in 2008 to 75% in 2016 and then declines to 68% in 2020. In Panel B, we plot the time trend in the political affiliation of executives after we add unaffiliated executives. We continue to find an increasing share of Republicans in the first part of the sample, as well as a decrease in the share of unaffiliated executives. The latter is partly mechanical, because in some states, we infer party affiliation from primary elections, and the cumulative likelihood of having voted in at least one primary election increases over time for each executive. To ensure our results are not driven by changes in the fraction of unaffiliated voters, we restrict our main analysis to Democrat and Republican executives and report results including unaffiliated voters in an alternative specification. Another important reason for excluding unaffiliated executives is that many self-declared independents have, in fact, strong partisan allegiances (e.g., Abramowitz, 2018).

[Insert Figure 1 here]

10

The dominance of the Republican Party among U.S. corporate executives is consistent with Cohen, Hazan, Tallarita, and Weiss (2019), who find the majority of CEOs in S&P 1500 companies donate primarily to the Republican party. Bonica (2016a) finds similar evidence. Two main differences exist between the contributions and the voter registration data. First, the executive population as a whole is more ideologically homogeneous (i.e., more Republican) in the voter registration data than in the contributions data. The second difference is with respect to the time trend: whereas we observe an increase in the share of Republican executives between 2008 and 2016 in the voter data, the share of executives who contribute to the Republican Party either remains constant (when unaffiliated contributions are excluded) or even decreases over time (when unaffiliated contributions are included). We use the cumulative donation amounts of the executives to infer party affiliation from political contributions and report these graphs in the Internet Appendix. Data on financial contributions are obtained from Stanford's Database on Ideology, Money in Politics, and Elections (DIME) (see Bonica, 2016b).[9]

In Figure 1, Panels C and D, we plot the distribution of party affiliation inferred from political contributions separately for executives who are registered Democrats and registered Republicans. An executive is classified as a Democrat (Republican) if she has made the majority of her cumulative contributions to the Democratic (Republican) Party. Whereas executives who are registered Democrats exhibit an increasing tendency to donate to their political party (Panel C), executives who are registered Republicans do not (Panel D). This finding suggests a trend toward more "open" Democrats among U.S. executives during our sample period. The pattern is also consistent with recent evidence reported by Bonaparte (2020), who finds contributions to the Democratic Party by Wall Street executives have increased since the 1990s. In the Internet Appendix, we repeat Panels C and D of Figure 1, after adding executives who are classified as unaffiliated based on their historical contributions. We observe that, starting around 2016, Republican executives increasingly donate to committees that cannot be linked to a political party. This finding is suggestive of a possible trend not only toward more open Democratic executives, but also toward more "hidden" Republican executives in recent years.

---

[9]We are grateful to Adam Bonica for sharing with us an extension of the data on political contributions.

3.2. Trends in the Partisanship of Executive Teams

Next, we turn to time trends in the political partisanship of executive teams. We define partisanship as the degree to which political views within the same executive team are dominated by a single party. More concretely, we define the degree of a firm's partisanship as:

$$\widehat{Partisanship}_{ft} = \frac{N_{ft} \times Partisanship_{ft} - 1}{N_{ft} - 1}, \tag{1}$$

where $Partisanship_{ft} = (\frac{DEM_{ft}}{DEM_{ft}+REP_{ft}})^2 + (\frac{REP_{ft}}{DEM_{ft}+REP_{ft}})^2$, and DEM_{ft} and REP_{ft} denote the number of Democratic and Republican executives in firm f in year t, respectively. N_{ft} refers to the sum of Democratic and Republican executives ($N_{ft} = DEM_{ft} + REP_{ft}$).[10]

Our measure has a number of desirable properties. First, it has an intuitive interpretation, capturing the probability that two randomly drawn executives from the same firm have the same party affiliation (i.e., are either both Republicans or both Democrats). Second, as we show in the Internet Appendix, it is an unbiased measure of partisanship even in small samples. This feature is important, given that the number of partisan executives in a given firm-year is typically small (between two and five). Third, our measure is closely related to the measure of fractionalization proposed by Easterly and Levine (1997), which has been widely used to study the ethnic, linguistic, and religious diversity of populations (e.g., Alesina, Devleeschauwer, Easterly, Kurlat, and Wacziarg, 2003). Although we prefer our baseline measure of partisanship, we show in our robustness tests in the Internet Appendix that our main results are robust to several alternative measures of a team's partisanship, including an indicator for all-Democrat and all-Republican teams.

The solid line in Figure 2 shows the average partisanship of executive teams over time. We observe a sizable increase of approximately 7.7 percentage points between 2008 and 2020. The year-on-year increase in the average partisanship is highest in 2010, 2012, and 2016. This finding suggests some presidential elections as well as controversial reforms (e.g., Obamacare in 2010) may have contributed to the increase in partisanship over our sample period.

[Insert Figure 2 here]

---

[10]Our measure is closely related to the concept of ethnic and linguistic fractionalization (see, e.g., Easterly and Levine (1997) and Alesina, Devleeschauwer, Easterly, Kurlat, and Wacziarg (2003)).

In Table 2, Panel A, we show the positive time trend in Figure 2 is statistically significant. We regress the partisanship measure for each firm-year on the calendar year as well as on other controls and fixed effects. Standard errors are clustered at the firm level. The coefficient in column (1) indicates that partisanship has increased by 0.7693 percentage points annually between 2008 and 2020, representing an average annual increase of 1.2% relative to the mean.[11] Our estimate of the slope coefficient remains stable when we control for the number of matched executives in column (2) as well as for other dimensions of diversity of the executive team (gender, race, and age) in column (3).

[Insert Table 2 here]

We perform a series of additional tests to verify the robustness of the observed increase in partisanship. In Table 2, Panels B and C, we obtain a sizable slope coefficient if we add unaffiliated executives, or if we treat all unmatched executives located in our nine states as unaffiliated. The economic effect is even larger when we use party information from primaries only (Panel D). We further show we obtain a similar coefficient if we add firm fixed effects (Panel E). This finding suggests the increase in partisanship is, for the most part, a within-firm phenomenon, rather than driven by changes in the composition of firms. In Panel F, we estimate a weighted least squares regression, where the weights are proportional to the logarithm of the firm's total book assets. The weighted least squares regression yields very similar point estimates, indicating the increase in partisanship is fairly homogeneous across the firm-size distribution.

In the Internet Appendix, we explore a series of alternative measures of partisanship. The first measure is an indicator equal to one if all matched executives in the firm have the same political party. The second measure is the absolute difference in the share of Democratic and Republican executives. The third measure is the probability that two executives from the same team have the same party affiliation, where party affiliation is assigned using the party of the executive's spouse. We identify spouses as the individual with the smallest age gap to the executive among all individuals living at the same address. The economic magnitude of the increase in partisanship is similar for those alternative measures. The fact that we find an increase in par-

---

[11]Note that the annual increase estimated in Table 2 is larger than the annual increase implied by the solid line in Figure 2, due to the varying sample size over time.

tisanship across such a broad set of measures highlights the robustness of our main result. The results using spouses' party affiliations are particularly helpful because they suggest the increase in partisanship reflects actual changes in the political views of executives, rather than executives' strategically changing their party registration status to appear more aligned with their colleagues. It is unlikely that such strategic behavior would extend to the executives' spouses. Moreover, many states restrict access to voter registration data.[12]

3.3. Monte Carlo Simulations

In this section, we investigate the extent to which the increase in partisanship is driven by an increase in the political homogeneity of the overall population of executives (as shown in Figure 1), or by an increased tendency of executives to match with like-minded individuals. To differentiate between these two possibilities, we perform Monte Carlo simulations in which we randomly assign each executive a political party, using as inputs the share of Democratic and Republican executives in the overall population of executives in a given year.[13] For each firm-year, we then simulate 1,000 hypothetical partisanship measures, assuming random matching of executives. The results from the simulation are shown in Figure 3.

[Insert Figure 3 here]

The blue bars show the average partisanship in each of the 1,000 simulated datasets, and the red line shows the average partisanship in the real data for the years 2008, 2014, and 2020. We observe that the blue distribution shifts to the right between 2008 and 2014. This shift reflects the increase in the share of Republican executives. Importantly, across all panels, the actual partisanship in our dataset exceeds the 95th percentile of partisanship in the simulated sample in all years. Hence, we can reject the hypothesis that executives match randomly at the 5% level. When we compare the results across panels, we observe an increasing tendency of executives to match with like-minded individuals, as can be seen from the fact that the red line moves farther and farther away from the blue distribution. The dashed line in Figure 2 visualizes

---

[12]See https://www.ncsl.org/research/elections-and-campaigns/access-to-and-use-of-voter-registration-lists.aspx for an overview.

[13]The approach of comparing actual segregation with segregation generated by randomness has also been used, for example, by Hellerstein and Neumark (2008) and Boisso, Hayes, Hirschberg, and Silber (1994).

this trend. In addition to the average partisanship in the actual data (solid line), it also plots the average simulated partisanship (dashed line) for each year. Over time, the distance between the two lines grows, consistent with the red line moving farther away from the mean of the blue distribution in Figure 3. In 2020, the difference between the average actual and the simulated partisanship measure is 4.7 percentage points larger than it was in 2008. Hence, the increased matching of executives on political affiliation can explain approximately 61% (=4.7/7.7), and thus a substantial share of the observed increase in partisanship between 2008 and 2020.

Further illustrating the trend toward greater political polarization, in the Internet Appendix, we document an increased prevalence of both firms whose executive composition is 100% Republican, as well as firms whose executive composition is 0% Republican, relative to the simulated distribution. Similarly, we also observe an increased prevalence of all-Democrat and zero-Democrat firms relative to the simulations. These results indicate the trend toward greater partisanship is not driven by a single party.

3.4. Homogeneity in Other Executive Characteristics

The increase in partisanship stands in stark contrast to trends in diversity along other executive characteristics. We construct the same measure – the probability that two randomly drawn executives are from the same group – using alternative group definitions based on gender and race. We then repeat the analysis from Table 2, Panel A, using homogeneity in gender and race as the dependent variable. The results are reported in Table 3. Although we see a high *level* of homogeneity in gender, the sign of the trend is negative, as can be seen from the significant negative coefficient on calendar year. For race, the trend is positive but economically small and statistically insignificant. Thus, whereas we observe an increasing homogeneity of political views, executive teams are not becoming more homogeneous in race and, if anything, are becoming less homogeneous in gender. Because female and minority executives are more likely to be Democrats, as we show in the Internet Appendix, controlling for diversity along the gender and race dimensions tends to further increase our estimate of the increase in partisanship (see Table 2, Panel A).

[Insert Table 3 here]

15

Finally, we also repeat the simulation exercise for gender and racial homogeneity. The results are reported in Figure 4. We find no evidence of increased matching on gender in Panel A, or on race in Panel B.

[Insert Figure 4 here]

3.5. Dyadic Regression Approach

The simulation results above suggest executives increasingly matching based on their political affiliation may be an important driver of the observed increase in polarization. This section develops a more formal test of assortative matching on political affiliation. We follow Colonnelli, Pinho Neto, and Teso (2020) and use a dyadic regression approach, which allows us to control for several exogenous executive characteristics that could drive executive's assortative matching.

To implement this approach, we first build a sample of all hypothetical pairs of executives in each calendar year. We then estimate the following regression:

$$y_{ikt} = \alpha_t + \beta^{SP} SParty_{ikt} + \beta^{SG} SGender_{ik} + \beta^{SE} SRace_{ik} + \beta^{SA} SAge_{ikt} + \epsilon_{ikt}, \qquad (2)$$

where y_{ikt} is an indicator taking a value one if executives i and k work in the same firm in year t, and zero otherwise. $SParty_{ikt}$ is an indicator taking a value one if executives i and k have the same political party, and zero otherwise; $SGender_{ik}$ is an indicator taking a value one if executives i and k have the same gender, and zero otherwise; $SRace_{ik}$ is an indicator taking a value one if executives i and k have the same race (white versus non-white), and zero otherwise; $SAge_{ik}$ is an indicator taking a value one if the age gap between executives i and k is five years or less, and zero otherwise. The sample is restricted to Republicans and Democrats only. We cluster standard errors at the executive-pair level. We show in the Internet Appendix that our results are robust to using the non-parametric, sandwich-type robust variance estimator proposed by Aronow, Samii, and Assenova (2017).

The results are reported in Panel A of Table 4. The reported coefficients are multiplied by 100 to ease the interpretation of the economic magnitudes. Columns (1) and (2) show that, regardless of whether we control for year fixed effects, the likelihood that two executives work in the same firm increases by about 5 basis points when they belong to the same political party.

16

This effect is sizable given that the unconditional likelihood of working for the same firm is 16.1 basis points. Columns (3) and (4) further show that, when we control for other executive characteristics (gender, race, and age), party affiliation continues to play a significant role in explaining executive's assortative matching. The coefficient on $SParty$ remains positive and statistically significant at the 1% level, and the magnitude of the coefficient barely moves.[14]

[Insert Table 4 here]

To assess whether the role of political affiliation in explaining executive matching has changed over time, we estimate equation (2) separately for each year in our sample. Figure 5 plots the estimated coefficient β^{SP} for each year. The figure reveals an increasing political segregation in executive teams over time, in particular during the last years of our sample period. The strong increase post 2016 suggests the polarized environment of the Trump presidency may have contributed to the increased matching of executives on political affiliation.

[Insert Figure 5 here]

We confirm the positive trend is statistically significant, by estimating the following regression:

$$y_{ikt} = \alpha_t + \beta^{SP} SParty_{ikt} \times Year_t + \beta^{SG} SGender_{ik} + \beta^{SE} SRace_{ik} + \beta^{SA} SAge_{ikt} + \epsilon_{ikt}. \quad (3)$$

The resulting estimates, reported in Panel B of Table 4, indicate that, as of 2008, executives who share the same party affiliation are 2.61 basis point more likely to work in the same firm (see column (4)). The average annual increase in the importance of party affiliation is 0.42 basis points, indicating that, by 2020, sharing the same party affiliation increases the likelihood of working in the same firm by 7.65 (=2.61+12×0.42) basis points—a substantial increase over 2008. Relative to the mean of the dependent variable, the average annual increase represents 2.6%.

In the Internet Appendix, we document that both Democratic and Republican executives contribute to the increasing political segregation over time. We further show that the increase in

---

[14]A placebo test reported in the Internet Appendix shows that, when we randomly assign political affiliations and executive characteristics to executive pairs, the coefficient on $SParty_{ikt}$ in these dyadic regressions is close to zero, and statistically insignificant.

assortative matching also holds in a broader sample of states. In addition to the locations with historical data going back to 2008, we also include 11 states that provide us with a snapshot of voters' party affiliations at the time we requested the data.[15] Although the increase is stronger in our original sample, we continue to see a positive and significant increase in political]assortative matching in locations that only provide a party-affiliation snapshot. This result mitigates concerns about the external validity of our results.

3.5.1. Decomposition

We further explore the mechanisms behind the increase in political assortative matching. Table 5 reports the results. In column (1), we repeat the regression from Table 4, Panel B, column (4), after also interacting other executive characteristics with calendar year. Consistent with the results from our Monte Carlo simulations, we find no increase in assortative matching on gender, age, or race. If anything, the coefficient estimate of the time trend is negative for all three characteristics, which makes the increase in matching on political affiliation even more striking.

[Insert Table 5 here]

Next, we explore to what extent the increase in executives' matching on political affiliation reflects within-person changes in party affiliation versus changes in team composition.[16] We repeat the analysis in Table 5, column (1), after removing any time variation in executives' political affiliation by carrying forward the first party affiliation we observe for each executive in our sample. The resulting estimates, reported in column (2), imply within-person party changes can explain less than half of the increase in partisanship. In other words, political assimilation of executives to other team members does play a role, but the majority of the effect is coming from changes in team composition. We explore this feature of the data in more detail in section 4 below.

Finally, we also investigate to what extent the increased matching on political affiliation is driven by executives increasingly sorting on political affiliation into states and industries, versus

---

[15]These states include: Arkansas, California (statewide), Connecticut, Florida, Kansas, Nevada, New York (statewide), Oklahoma, Oregon, Rhode Island, and West Virginia.

[16]The share executives who switch from Republican to Democrat or vice versa while appearing in Execucomp is 3.7%, and the share of executives who switch from unaffiliated to partisan is 11.9%.

executives increasingly sorting on political affiliation into firms within the same industry or state. In column (3), we restrict the dyadic sample to executive pairs in which both executives work in the same GICS sector. Significant matching on party affiliation within the same industry continues (as can be seen from the large and significant coefficient on $SParty$), but the magnitude of the annual increase in matching declines to 1.6%. This observation indicates industries becoming more politically homogeneous can explain some, but not all of the time trend. As we show in the Internet Appendix, the within-industry increase in assortative matching is strongest in the telecommunication services sector (which includes entertainment), as well as in finance, real estate, and energy. When we restrict the sample to executives working in the same state, we also continue to find significant matching on party affiliation (see column (4)). However, the positive time trend disappears.[17] Hence, the increase in political assortative matching documented above is driven by partisan segregation of executives by state.

3.5.2. Comparison to Local State Population

The results above raise the question of the extent to which the increase in executives' partisan segregation across geographies reflects trends in the broader population of registered voters, and the extent to which executives are "special." To provide an answer, we again run Monte Carlo simulations in which we randomly assign each executive a political party, based on the distribution of voters' party affiliations in the executive's state.

In the first simulation, we randomly assign each executive a party, using the distribution of party affiliations among all registered voters in the state of the executive in a given year. To reduce data complexity, we use a random draw of 50,000 voters in each state to proxy for the broader state population. We simulate 1,000 dyadic datasets and, in each dataset, we estimate the regression from Table 4, Panel B, column (4), and store the coefficient on $SParty \times Year$. The blue histogram in Figure 6, Panel A, plots the 1,000 estimated coefficients on $SParty \times Year$. The vertical red line shows the estimated coefficient of 0.0042 in our actual data (reported in Table 4, Panel B, column (4)). The blue distribution is centered around zero, indicating no increase in assortative matching occurs when we look at the broader state population. In other words,

---

[17]We continue to find a statistically significant increase in assortative matching within the same state for Ohio and Texas. See Internet Appendix.

the increase in political alignment that we observe among executives in the same state does not extend to the population of all registered voters.

[Insert Figure 6 here]

One concern about the first simulation is that using the entire state population may not be a useful reference point for the dyadic regression, given that we have shown in Figure 1 that our sample of executives is leaning much more strongly Republican than the general population. Hence, we modify our simulation as follows. In 2008, we randomly assign each executive a party, using the distribution of party affiliations among all *executives* in the state. In subsequent years, we let the share of Democrats and Republican executives in the state vary according to the trends in the overall state population. For example, if, in a given state, the share of Republicans executives is 65% as of 2008, and the share of Republican voters in the state has increased by 2 percentage points between 2008 and 2009, we would use a share of 67% Republican executives in the state as input for our simulation in 2009.

Panel B of Figure 6 reports the results. Now, we obtain coefficients that are clearly centered to the right of zero. Therefore, when we start out with a population that is leaning Republican and let the share of Republicans vary according to the trends in the local state population, we do find an increase in matching on political affiliation. Importantly, however, the increase in matching on political affiliation that we see in the actual executive data is substantially stronger: our coefficient of 0.0042 is larger than the largest coefficient estimated on the simulated data and more than double the mean of the simulated distribution. The picture is similar when, instead of using the trend among voters in the same state, we use the trend among voters in the same MSA (see Panel C of Figure 6). We can therefore conclude with a high degree of confidence that the increase in matching on political affiliation among executives is stronger than what we would expect based on state-specific or MSA-specific trends. This result is remarkable, given that we are looking at a group of highly skilled executives whose skill is in short supply (e.g., Larcker, Donatiello, and Tayan, 2017).

4. Executive Departures

Our results so far indicate that, over time, executive teams have become more partisan, largely due to an increased tendency of executives to match with other executives who share their political views. To further support the role of political views in executive-team formation, we next investigate whether alignment of political views can explain executives' decision to leave the firm. We also assess the implications of these departures for shareholder value.

4.1. Political Alignment and Executive Departure

Prior literature has shown an organization's policies affect new members joining and dissatisfied members leaving (e.g., Gieczewski, 2021). Thus, we hypothesize that political alignment with other team members could drive departure decisions of corporate executives. To investigate this channel, we test whether executives who have different political views than those of the majority of the team are more likely to depart from the firm. We estimate the following regression:

$$Executive\,Departure_{ift} = \alpha_{ft} + \alpha_p + \beta Misaligned_{if,t-1} + \delta' X_{if,t-1} + \varepsilon_{ift}, \qquad (4)$$

where f, i, and t index firms, executives, and years, respectively. p denotes the executive's political affiliation (Democrat or Republican). $Executive\,Departure$ is equal to one in the last year an executive is reported among the top earners of a given firm in Execucomp, and zero otherwise.[18] $Misaligned$ is a dummy variable equal to one if the political affiliation of the executive does not match the political affiliation of the majority of the team, and zero otherwise. A team is classified as having a Democratic majority if there are more Democrats than Republican executives. Republican majority is defined analogously. We remove teams without a clear Democrat or Republican majority. Vector X captures time-invariant and time-varying individual-level control variables (CEO status, tenure in the company and tenure squared, race, age, an indicator variable whether the executive is older than 65, and gender). α_{ft} are firm $\times$ year fixed effects and absorb both time-invariant and time-varying firm characteristics, implying we do not need to include any firm-level control variables in this regression.

---

[18]Departures are thus identified as instances in which the executive is no longer reported for a given firm in Execucomp. Hence, we cannot distinguish between executives leaving the firm and executives no longer being among the top earners in the company. However, we have verified in a randomly selected sample of 100 executive disappearances from Execucomp that 85% of those indeed coincided with a departure from the firm.

Our coefficient of interest is β, which captures the difference in the likelihood of departure between executives who have a different political affiliation than the team's majority and those who are aligned with the majority. Due to the inclusion of executive-party-affiliation fixed effects (α_p) in all regressions, the coefficient will capture the effect of belonging to the same party as the majority, rather than differences in the average turnover probability between Republican and Democratic executives.

Table 6 presents the results. We observe that executives who are politically misaligned with the majority have an elevated propensity to leave the firm compared to aligned executives. The coefficient in column (1), where we include year, firm, and political affiliation fixed effects as well as individual-level controls, shows a 2.3-percentage-point-higher probability of leaving the firm than executives who are misaligned.

[Insert Table 6 here]

In the stricter specification, reported in column (2), we absorb any time-varying shocks at the firm level by exploiting variation within the same firm and year. We find that, within the same firm-year, executives whose political views are misaligned with the team's majority have a 3.2-percentage-point-higher probability of leaving the firm compared to executives whose views are aligned with the majority. This effect represents a 24% increase relative to the unconditional turnover probability of 13.4% over our sample period. In columns (3) to (6), we examine how the effect varies across different time periods. In columns (3) and (4), in which we focus on years 2008–2014, the coefficient on *Misaligned* is 0.5–2.1 percentage points but statistically insignificant. During the 2015–2019 period (columns (5) and (6)), the coefficient estimate is substantially larger and statistically significant, consistent with our results in previous sections.[19] In the Internet Appendix, we show the results are robust to including unaffiliated executives.

4.2. Valuation Consequences of Misaligned Executive Departures

An important remaining question is whether the departure of politically misaligned executives is good or bad for shareholders. From a theoretical perspective, the implications of reduced

---

[19]The difference in coefficients between columns (3) and (5) is significant at the 5% level, but the difference between columns (4) and (6) is statistically insignificant.

political diversity on shareholder value are ambiguous. On the one hand, greater political homogeneity may be bad for shareholders if it leads to group think or inefficient hiring and firing decisions. On the other hand, if partisan disagreement leads to deadlock in politically diverse teams (e.g., Donaldson, Malenko, and Piacentino, 2020), greater political homogeneity may be in the interest of shareholders.

To shed light on this question, we analyze abnormal stock returns around the departure announcements of the executives in our sample. For each executive departure, we manually search for the date of the first official announcement of the departure, using Factiva and Google searches. We are able to find the announcement date for 1,271 out of 1,675 departures. We remove departure announcements that occur on a month-end (52 announcements), because they often coincide with other financial disclosures of the company. In the Internet Appendix, we verify the accuracy of the departure announcement date by plotting the frequency of news on Dow Jones Newswire linked to the firm around the announcement date. We find a sharp spike in news frequencies on the day of as well as on the day after the departure announcement. Next, we use an event window from ten trading days before the announcement date to up to ten trading days after the announcement, and compute abnormal returns relative to a Fama and French (1993) and Carhart (1997) four-factor model estimated over days $t = -300$ to $t = -50$. The advantage of using stock prices is that they are forward-looking and hence provide us with an estimate of the impact of an executive's departure on the firm's equity value that is based on ex-ante information. Moreover, by focusing on a very narrow window around the departure announcement, we are able to control for firm heterogeneity, because information about the firm's type should already be priced in at the time of the departure announcement. For example, if misaligned executives are more likely to be present in poorly-managed firms, the firm's stock price should already reflect this information at the time of the departure announcement.

Figure 7 plots the cumulative abnormal returns (CARs) around the departure announcement, separately for departures of executives who are politically aligned and executives who are misaligned with their team's majority. Panel A shows CARs around all departures, whereas Panel B focus on returns around immediate departures, that is, departures where the executive departs on the same day as the announcement day. Immediate departures provide a useful subset of departures for our study, since they are plausibly less anticipated and more likely a result

of frictions in the team. Alignment with the team is measured as of the firm's previous fiscal year-end.

[Insert Figure 7 here]

Two things are worth noting in Figure 7, Panel A. First, the stock price reaction to the average departure is negative, consistent with Jenter and Kanaan (2015). Second, and more importantly, the stock price reaction to departures by misaligned executives is substantially more negative for departures of misaligned executives: two days after the event, the CAR is about 1.7 percentage points lower for misaligned executives than for aligned executives. The divergence in abnormal returns is even more striking once we focus on immediate departures (Panel B). These patterns strongly suggest the departures of politically misaligned executives are not in the interest of shareholders.

In Table 7, Panel A, we show the difference in CARs is statistically significant and robust to the inclusion of controls for executive and firm characteristics. We regress CARs measured over various event windows on an indicator for misaligned executives and on controls for the same executive characteristics as in Table 6. We further control for the same executive and firm characteristics as in Table 6, as well as for year fixed effects. In the Internet Appendix, we show results are robust to controlling for additional lagged firm characteristics (firm size, leverage, investment, cash holdings, and sales growth). We again cluster standard errors at the firm level.

[Insert Table 7 here]

Depending on the length of the event window, we estimate a difference in the abnormal stock returns around the departure between –1.5% (column (2)) and –1.7% (column (4)). For the average firm in our sample, this effect translates into incremental dollar losses of at least $238 million around the announcement of a misaligned executive departure. These differences are even larger once we focus on immediate departures, as reported in the Internet Appendix. The incremental losses likely combine two effects: the effect of the executive departure itself, as well as a potential negative signal about future personnel decisions. Either way, investors perceive separations of misaligned executives as highly inefficient.

A potential alternative explanation for the larger stock price drop around departures of misaligned executives is that they may be less anticipated than departures of aligned executives.

Differential anticipation effects are unlikely to explain the return differences we observe, for several reasons. First, the departure results reported in section 4 suggest that, if anything, the departures of misaligned executives should be *more* anticipated, not less. Second, we don't see any differences in the stock price until shortly before the departure announcement (see Figure 7). Third, we do not find economically or statistically significant differences in the news coverage of these two types of departures (see Internet Appendix). Finally, as we show next, departures by misaligned executives are more likely to be forced—another indicator that these departures are more detrimental to firm value.

To shed light on the voluntary versus involuntary nature of departures by misaligned executives, we obtain information on forced CEO turnovers from Peters and Wagner (2014). In Table 7, Panel B, we regress an indicator for involuntary CEO departures on an indicator for CEOs who are misaligned with the majority of the executive team, and the same controls as in Table 7, Panel A. We see that, conditional on departing from the firm, CEOs who are misaligned with the rest of the team have a 27-percentage-points-higher likelihood of a forced departure (see column (2)). These results are consistent with one of the most important governance policies—the decision to retain or fire the CEO—being a function of executives' political views.

5. Discussion

Partisan animosity has increased substantially over the last 20 years. According to Pew Research Pew Research Center (2014), the share of individuals with a highly negative view of the opposing party has more than doubled since 1994 for both parties. Most of these intense partisans believe the opposing party's policies "are so misguided that they threaten the nation's well-being." This finding raises the question of whether the polarized environment in the U.S.— with tensions between the two major parties at an all-time high—affects the ability of individuals to work across partisan lines in the workplace. We provide novel evidence showing executive teams in large U.S. firms are becoming increasingly dominated by one political party, leading to a political polarization of corporate America.

We also shed light on the mechanism behind the increasing political polarization of executive teams. We show the majority of the effect is driven by executives being increasingly politically segregated across states. In other words, executives in Texas and Ohio are becoming more

Republican, whereas executives in California and New York are becoming more Democratic. Although we observe similar trends in the local population, surprisingly, the increase in partisan segregation is twice as large among our sample of executives. A fruitful avenue for future research would be to explore potential reasons behind the stronger increase among executives and how it compares with other parts of the workforce. We further find the increase in assortative matching is concentrated in the last few years of our sample period (post 2016), indicating the polarized environment around the election of Donald J. Trump may have played a role.

Our results have two important implications that deserve the attention of academics, investors, and policymakers. First, we show the increasingly partisan work environment has negative consequences for firm value, by leading to inefficient separations between executives and firms. This result implies shareholders of public U.S. firms should be concerned about the trend toward greater partisanship. Shareholder proposals and discussions about ideological diversity at annual shareholder meetings, such as the one at Apple's annual shareholder meeting in 2019 (Sherr, 2019), may thus become a more common phenomenon.

Second, our results raise the question of whether policymakers should be concerned about political discrimination in the workplace—even in the absence of any consequences for firm value. Traditionally, discussions about discrimination in the workplace have focused on gender, race, sexual orientation, and age.[20] By contrast, the U.S. federal law and many state laws do not prohibit private employers from discriminating against employees on the basis of political beliefs.

6. Conclusion

This paper establishes a new stylized fact, namely, that executive teams in U.S. firms are becoming increasingly partisan, leading to a political polarization of corporate America. This trend implies the growing tendency of U.S. individuals to socialize and form relationships and friendships with politically like-minded individuals extends also to the highest-level decision makers in the workplace. We use political affiliations from voter registration records over the period 2008 and 2020, matched with information on top executives of S&P 1500 firms, and track the

---

[20]Under Title VII of the Civil Rights Act of 1964, it is illegal for employers to make job decisions based on race, color, national origin, religion, and sex. Moreover, the Age Discrimination Act, the Americans with Disabilities Act, and the Genetic Information Nondiscrimination Act prohibit discrimination based on age, disability, and genetic information.

partisanship of executive teams over time. We define partisanship as the degree to which political views within the same executive team are dominated by a single party. More specifically, our measure of partisanship is the probability that two randomly drawn executives are affiliated with the same political party. We find a 7.7-percentage-point increase in the partisanship of executive teams over our sample period. This increase is almost three quarters of the decrease in gender homogeneity over the same time period. The rise in partisanship is explained by both an increasing share of Republican executives and, to a larger degree, by increased matching of executives with politically like-minded individuals. Finally, we also explore the implications of executives' matching on political affiliation for shareholder value. Studying stock price reactions to executive departures, we show that departures of executives who are misaligned with the political views of the team's majority are more costly for shareholders than departures of politically aligned executives. Hence, some aspects of the rising polarization among U.S. executives have negative consequences for firms' shareholders.

The results in this paper raise many important questions that provide fruitful avenues for future research. First, although we are able to show that reduced political diversity harms shareholder value, we do not yet understand the underlying mechanisms. Going forward, it is important to understand how the political diversity of the executive team affects corporate decisions, such as hiring, investment, and financing policies, as well as corporate innovation decisions. Second, how the rising political polarization of executives influences other stakeholders, including debt holders, employees, and local communities, is unclear. Third, we show the increase in political assortative matching is even stronger among executives than in the broader population of voters. Assessing whether other parts of the workforce exhibit trends similar to those of the executive suite, and to what extent executives are special among the firm's employees, is important. Finally, the extent to which partisan executives are motivated directly by political preferences (i.e., wanting to live and work around like-minded individuals) or indirectly (e.g., by selecting on characteristics of the company, its workforce, or its location that are correlated with partisanship), remains an open question. We look forward to future research exploring these questions.

References

Abramowitz, Alan I., 2018, *The Great Alignment* (Yale University Press).

Adams, Renée B., and Daniel Ferreira, 2009, Women in the boardroom and their impact on governance and performance, *Journal of Financial Economics* 94, 291–309.

Addoum, Jawad M., and Alok Kumar, 2016, Political sentiment and predictable returns, *Review of Financial Studies* 29, 3471–3518.

Ahern, Kenneth R., and Amy K. Dittmar, 2012, The changing of the boards: The impact on firm valuation of mandated female board representation, *Quarterly Journal of Economics* 127, 137–197.

Alesina, Alberto, Arnaud Devleeschauwer, William Easterly, Sergio Kurlat, and Romain Wacziarg, 2003, Fractionalization, *Journal of Economic Growth* 8, 155–194.

Aronow, Peter M., Cyrus Samii, and Valentina A. Assenova, 2017, Cluster–robust variance estimation for dyadic data, *Political Analysis* 23, 564–577.

Babenko, Ilona, Viktar Fedaseyeu, and Song Zhang, 2019, Do CEOs affect employees' political choices?, *Review of Financial Studies* 33, 1781–1817.

Bernile, Gennaro, Vineet Bhagwat, and Scott Yonker, 2018, Board diversity, firm risk, and corporate policies, *Journal of Financial Economics* 127, 588 – 612.

Bernstein, Shai, Rebecca Diamond, Timothy McQuade, and Beatriz Pousada, 2019, The contribution of high-skilled immigrants to innovation in the United States, Working Paper.

Bertrand, Marianne, and Emir Kamenica, 2018, Coming apart? Cultural distances in the United States over time, Working Paper 24771 National Bureau of Economic Research.

Bertrand, Marianne, and Antoinette Schoar, 2003, Managing with style: The effect of managers on firm policies, *Quarterly Journal of Economics* 118, 1169–1208.

Boisso, Dale, Kathy Hayes, Joseph Hirschberg, and Jacques Silber, 1994, Occupational segregation in the multidimensional case: Decomposition and tests of significance, *Journal of Econometrics* 61, 161–171.

Bonaparte, Yosef, 2020, Is Wall Street turning blue?, Working paper.

———— , Alok Kumar, and Jeremy K. Page, 2017, Political climate, optimism, and investment decisions, *Journal of Financial Markets* 34, 69–94.

Bonica, Adam, 2016a, Avenues of influence: On the political expenditures of corporations and their directors and executives, *Business and Politics* 18, 367–394.

———— , 2016b, Database on ideology, money in politics, and elections: Public version 2.0. Stanford, CA: Stanford University Libraries., https://data.stanford.edu/dime.

Boxell, Levi, Matthew Gentzkow, and Jesse M. Shapiro, 2017, Greater internet use is not associated with faster growth in political polarization among US demographic groups, *Proceedings of the National Academy of Sciences* 114, 10612–10617.

Carhart, Mark M., 1997, On persistence in mutual fund performance, *Journal of Finance* 52, 57–82.

Cassidy, William, and Blair Vorsatz, 2021, Partisanship and portfolio choice: Evidence from mutual funds, Working Paper.

Cohen, Alma, Moshe Hazan, Roberto Tallarita, and David Weiss, 2019, The politics of CEOs, *Journal of Legal Analysis* 11.

Cohen, Alma, Moshe Hazan, and David Weiss, 2021, Politics and gender in the executive suite, Working Paper 26669 National Bureau of Economic Research.

Colonnelli, Emanuele, Valdemar Pinho Neto, and Edoardo Teso, 2020, Politics at work, Working paper.

Dagostino, Ramona, Janet Gao, and Pengfei Ma, 2020, Partisanship in loan pricing, Working Paper.

Donaldson, Jason Roderick, Nadya Malenko, and Giorgia Piacentino, 2020, Deadlock on the board, *Review of Financial Studies* 33, 4445–4488.

Duchin, Ran, Abed El Karim Farroukh, Jarrad Harford, and Tarun Patel, 2019, Political attitudes, partisanship, and merger activity, Working Paper.

Easterly, William, and Ross Levine, 1997, Africa's growth tragedy: Policies and ethnic divisions, *Quarterly Journal of Economics* 112, 1203–1250.

Engelberg, Joseph, Jorge Guzman, Runjing Lu, and William Mullins, 2021, Partisan entrepreneurship, Working Paper.

Evans, R., M. Prado, A. Rizzo, and Rafael Zambrana, 2022, Identity, diversity, and team performance: Evidence from U.S. mutual funds, Working paper.

Fama, Eugene F., and Kenneth R. French, 1993, Common risk factors in the returns on stocks and bonds, *Journal of Financial Economics* 33, 3–56.

Fich, Eliezer M., 2005, Are some outside directors better than others? Evidence from director appointments by Fortune 1000 firms, *Journal of Business* 78, 1943 – 1972.

Gentzkow, Matthew, 2016, Polarization in 2016, Toulouse Network of Information Technology White Paper.

Gerber, Alan S., and Gregory A. Huber, 2009, Partisanship and economic behavior: Do partisan differences in economic forecasts predict real economic behavior?, *American Political Science Review* 103, 407—426.

Gieczewski, Germán, 2021, Policy persistence and drift in organizations, *Econometrica* 89, 251–279.

Gift, Karen, and Thomas Gift, 2015, Does politics influence hiring? Evidence from a randomized experiment, *Political Behavior* 37, 653–677.

Giglio, Stefano, Matteo Maggiori, Johannes Stroebel, and Stephen Utkus, 2021, Five facts about beliefs and portfolios, *American Economic Review* 111, 1481–1522.

Gillitzer, Christian, and Nalini Prasad, 2018, The effect of consumer sentiment on consumption: Cross-sectional evidence from elections, *American Economic Journal: Macroeconomics* 10, 234–269.

Gordon, Sanford C., Catherine Hafer, and Dimitri Landa, 2007, Consumption or investment? On motivations for political giving, *Journal of Politics* 69, 1057–1072.

Gormley, Todd A., Mahsa Kaviani, and Hosein Maleki, 2021, When do judges throw the book at companies? The influence of partisanship in corporate prosecutions, Working Paper.

Hellerstein, Judith K., and David Neumark, 2008, Workplace segregation in the United States: Race, ethnicity, and skill, *Review of Economics and Statistics* 90, 459–477.

Hertel-Fernandez, Alexander, 2020, Power and politics in the U.S. workplace, *Economic Policy Institute*.

Iyengar, Shanto, Gaurav Sood, and Yphtach Lelkes, 2012, Affect, not ideology, *Public Opinion Quarterly* 76, 405–431.

Jenter, Dirk, and Fadi Kanaan, 2015, CEO turnover and relative performance evaluation, *Journal of Finance* 70, 2155–2184.

Kempf, Elisabeth, and Margarita Tsoutsoura, 2021, Partisan professionals: Evidence from credit rating analysts, *Journal of Finance* 76, 2805–2856.

Larcker, David F., Nicholas E. Donatiello, and Brian Tayan, 2017, CEO talent: America's scarcest resource? 2017 CEO talent survey, CGRI Survey Series. Corporate Governance Research Initiative, Stanford Rock Center for Corporate Governance.

Lee, Jongsub, Kwang J. Lee, and Nandu J. Nagarajan, 2014, Birds of a feather: Value implications of political alignment between top management and directors, *Journal of Financial Economics* 112, 232–250.

Lott, John R., and Kevin A. Hassett, 2014, Is newspaper coverage of economic events politically biased?, *Public Choice* 160, 65–108.

Makridis, Christos, 2019, Sentimental business cycles and the protracted Great Recession, Working Paper.

Mason, Lilliana, 2013, The rise of uncivil agreement: Issue versus behavioral polarization in the American electorate, *American Behavioral Scientist* 57, 140–159.

——— , 2015, I disrespectfully agree: The differential effects of partisan sorting on social and issue polarization, *American Journal of Political Science* 59, 128–145.

Masulis, Ronald W., Cong Wang, and Fei Xie, 2012, Globalizing the boardroom—the effects of foreign directors on corporate governance and firm performance, *Journal of Accounting and Economics* 53, 527 – 554.

McCartney, W. Ben, and Calvin Zhang, 2019, Short selling: Political affiliation and households' real estate decisions, Working Paper.

McGrath, Mary C., 2017, Economic behavior and the partisan perceptual screen, *Quarterly Journal of Political Science* 11, 363–383.

Meeuwis, Maarten, Jonathan A. Parker, Antoinette Schoar, and Duncan I. Simester, 2021, Belief disagreement and portfolio choice, *Journal of Finance* Forthcoming.

Mian, Atif R., Amir Sufi, and Nasim Khoshkhou, 2021, Partisan bias, economic expectations, and household spending, *Review of Economics and Statistics* p. forthcoming.

Mutz, Diana C., and Jeffery J. Mondak, 2006, The workplace as a context for cross-cutting political discourse, *Journal of Politics* 68, 140–155.

Nguyen, Tuan, Stuart Locke, and Krishna Reddy, 2015, Does boardroom gender diversity matter? Evidence from a transitional economy, *International Review of Economics Finance* 37, 184 – 202.

Peters, Florian S., and Alexander F. Wagner, 2014, The executive turnover risk premium, *Journal of Finance* 69, 1529–1563.

Pew Research Center, 2014, Political polarization in the American public, Pew Research Report, June 12.

———, 2017, Key takeaways on Americans' growing partisan divide over political values, Author: Carroll Doherty.

———, 2018, Commercial voter files and the study of U.S. politics, Authors: Ruth Igielnik and Scott Keeter and Courtney Kennedy and Bradley Spahn.

Rice, Adam, 2020, Partisan investment cycles, Working Paper.

Sherr, Ian, 2019, Apple investors debate political diversity at annual shareholder meeting, Retrieved from https://www.cnet.com/tech/mobile/apple-investors-debate-political-diversity-at-annual-shareholder-meeting/.

Vorsatz, Blair, 2021, Costs of political polarization: Evidence from mutual fund managers during Covid-19, Working paper.

Wall Street Journal, 2021, Nasdaq's board-diversity proposal wins SEC approval, August 6. Author: Alexander Osipovich.

Westphal, James D., and Edward J. Zajac, 1995, Who shall govern? CEO/board power, demographic similarity, and new director selection, *Administrative Science Quarterly* 40, 60–83.

Ye, Junting, Shuchu Han, Yifan Hu, Baris Coskun, Meizhu Liu, Hong Qin, and Steven Skiena, 2017, Nationality classification using name embeddings, in *Proceedings of the 2017 ACM on Conference on Information and Knowledge Management* 1897–1906.
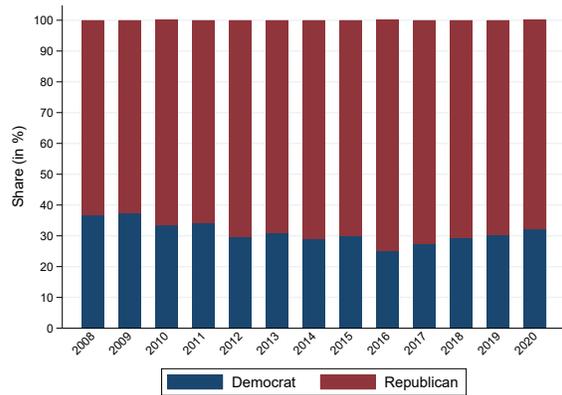
(A) Share of Dem./Rep. Executives
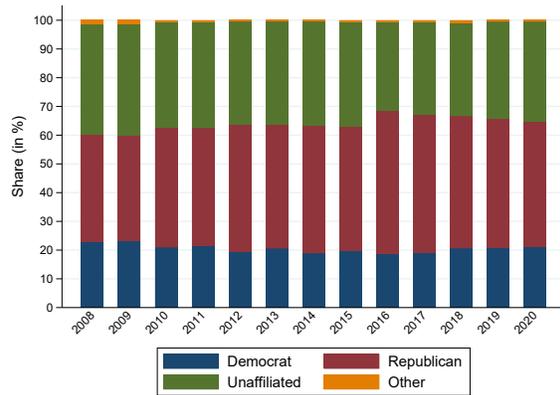
(B) Share of Dem./Rep./Unaff. Executives
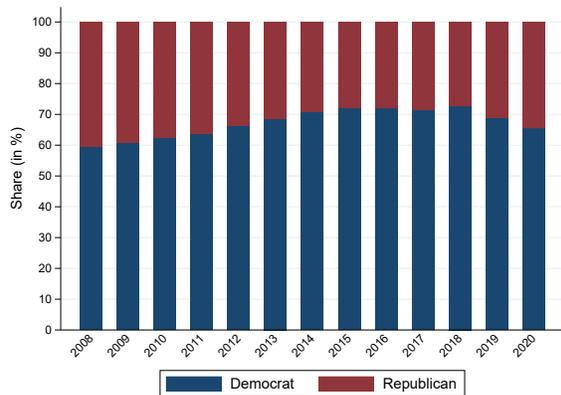
(C) Contributions by Registered Democrats
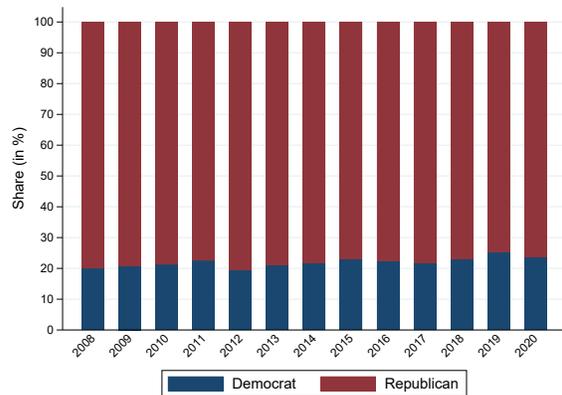
(D) Contributions by Registered Republicans

Figure 1: Distribution of Party Affiliation

Panels A and B show the distribution of party affiliation from voter registration records over time for our sample of matched executives. Panel A shows the distribution after restricting the sample to Democratic and Republican executives. Panel B adds unaffiliated executives and executives affiliated with other parties. Panels C and D show the distribution of party affiliation inferred from political contributions, separately for executives who are identified as Democrats (Panel C) and Republicans (Panel D) in the voter registration data. We infer party affiliation from political contributions, using the cumulative contributions made by the executive to the Democratic and Republican Party, respectively.
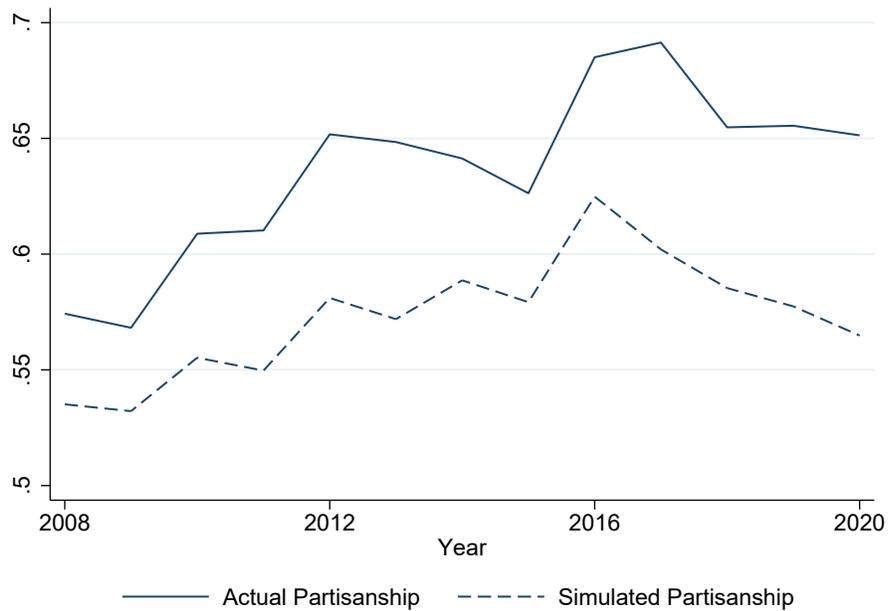
Actual and Simulated Partisanship

Figure 2: Partisanship: Actual vs. Simulation (by Year)

The figure plots, for each calendar year, the actual partisanship of executive teams in the data (solid line) and the average simulated partisanship of executive teams (dashed line) across 1,000 simulations. For the simulation, executives are randomly assigned a political party, using the distribution of party affiliation in the full sample of executives in a given calendar year as inputs.
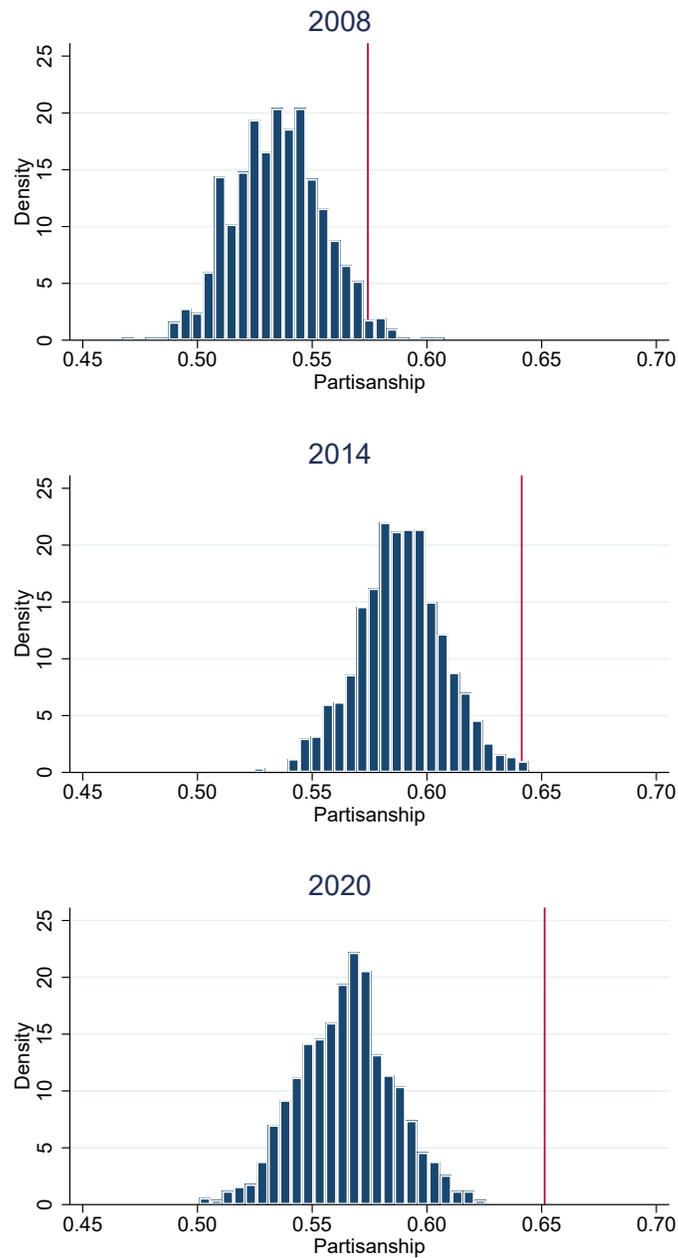
Figure 3: Partisanship: Actual vs. Simulation

The figure shows the histogram of the simulated partisanship of executive teams after 1,000 simulations for the years 2008, 2014, and 2020. Executives are randomly assigned a political party, using the distribution of party affiliation across the sample of executives in a given calendar year as inputs. The red vertical line shows the average partisanship of executive teams in the actual data.
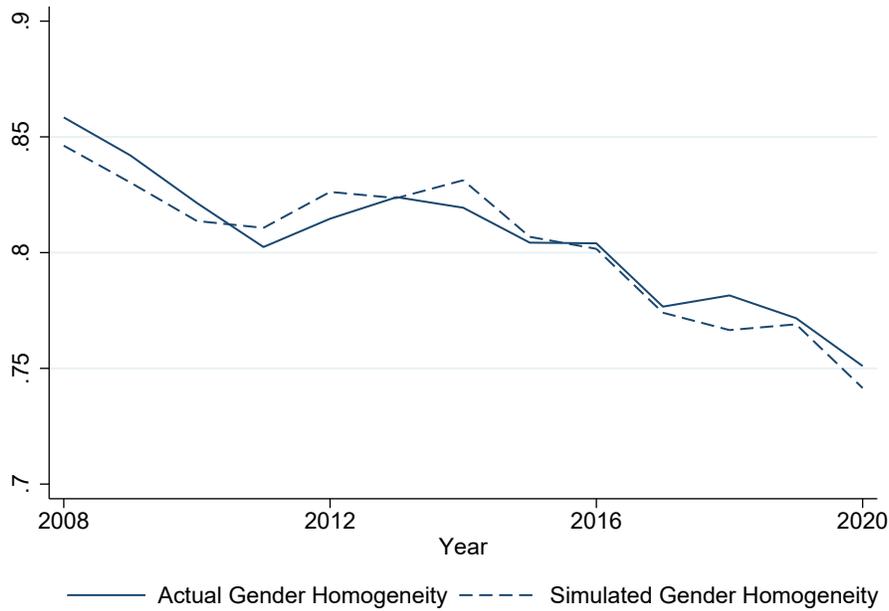
(A) Gender Homogeneity
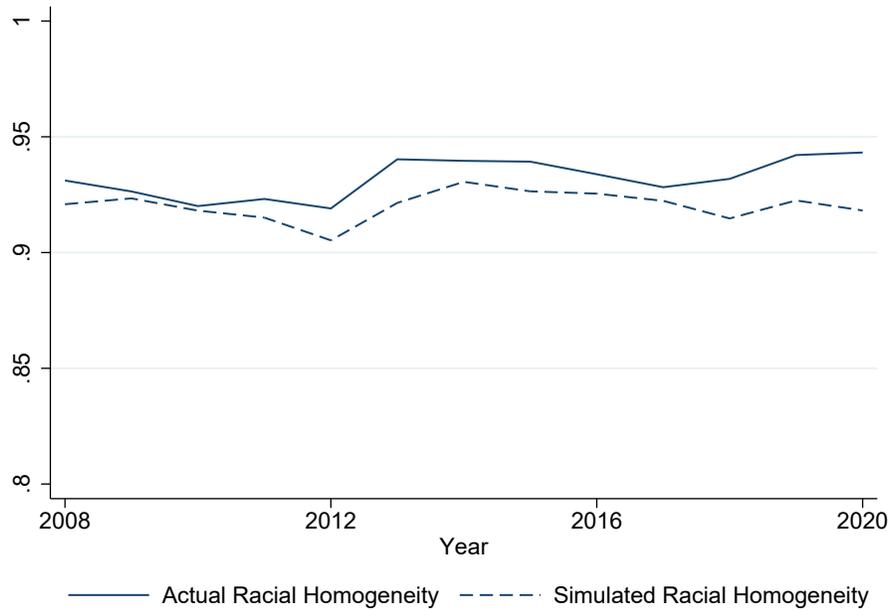
(B) Racial Homogeneity

Figure 4: Gender and Racial Homogeneity: Actual vs. Simulation (by Year)

The figure plots, for each calendar year, the actual homogeneity of executive teams in the data (solid line) and the average simulated homogeneity of executive teams (dashed line) across 1,000 simulations. Panel A reports results for gender homogeneity, and Panel B for racial homogeneity. For the simulation, executives are randomly assigned a gender (race), using the distribution of gender (race) in the full sample of executives in a given calendar year as inputs.
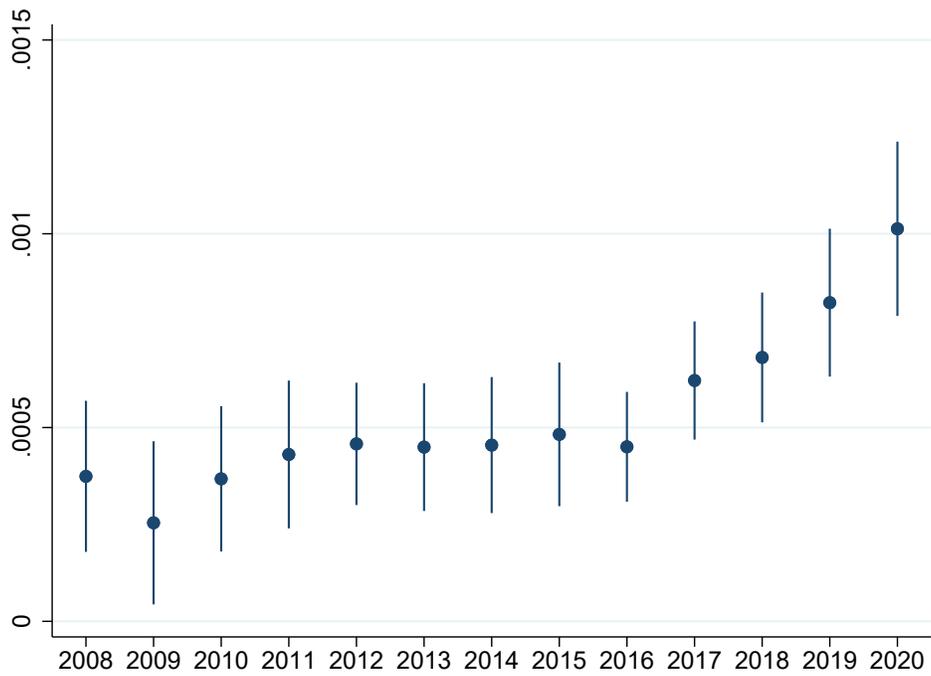
Figure 5: Dyadic Regression by Year

The figure shows the results from our dyadic regression for each calendar year. We estimate equation (2) separately for each calendar year and plot coefficient β^{SP} of the variable $SParty$, an indicator equal to one if both executives share the same party, together with the corresponding 95% confidence interval.
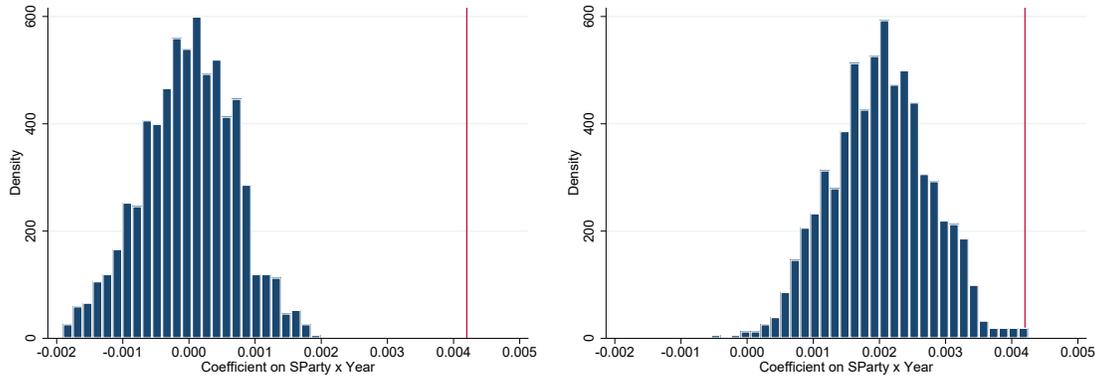
(A) Local State Population

(B) Executive Population with Local State Trend
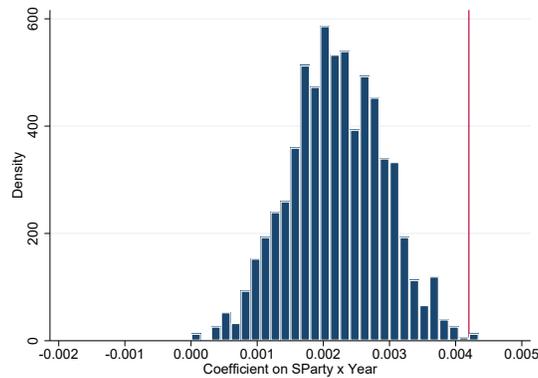
(C) Executive Population with Local MSA Trend

Figure 6: Dyadic Regression: Comparison to Local Population

The figure plots the histogram of regression coefficients on $SParty \times Year$ from equation (3) after 1,000 simulations. In Panel A, each executive is randomly assigned a political party, using the distribution of party affiliation across a random sample of 50,000 registered voters from the executive's state as inputs. In Panel B, each executive is randomly assigned a political party, using the population of executives in the state as of 2008 and then letting the share of Democratic and Republican executives in the state change according to the trends in a randomly selected sample of 50,000 voters from the same state. In Panel C, each executive is randomly assigned a political party, using the population of executives in the firm's MSA as of 2008 and letting the share of Democratic and Republican executives in the MSA change according to the trends in a randomly selected sample of 5,000 voters from the same MSA. The red vertical line shows the coefficient on $SParty \times Year$ reported in Table 4, Panel B, column (4).
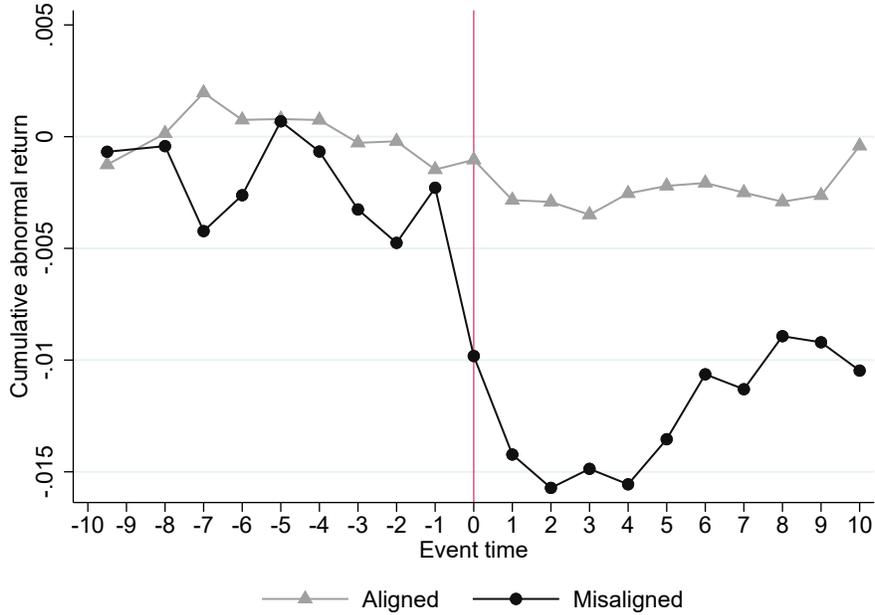
(A) All Departures
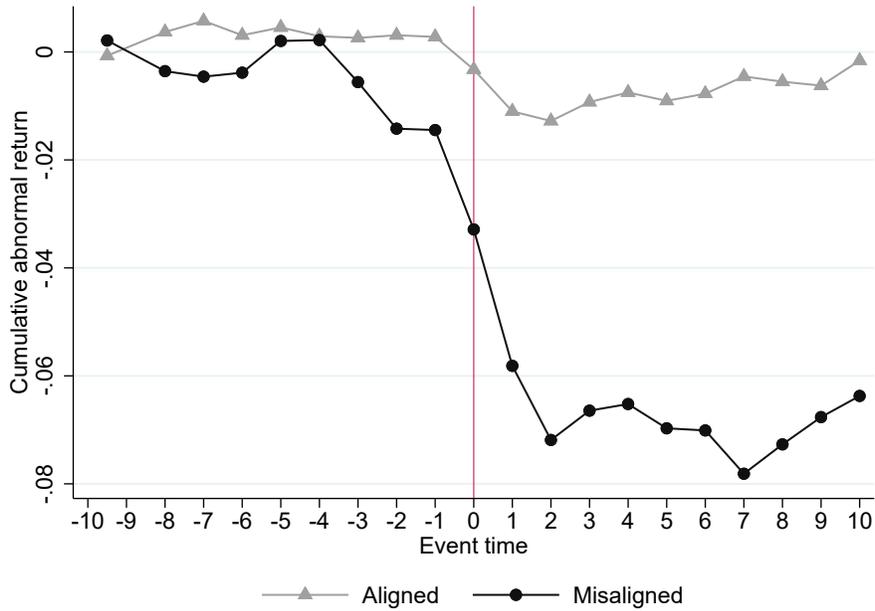
(B) Immediate Departures

Figure 7: Abnormal Returns around Announcements of Executive Departures

The figure plots cumulative abnormal returns over event days (−10,+10) around the announcement of an executive departure, separately for executives who are aligned versus misaligned with the party of the team's majority. Abnormal returns are estimated based on the Fama and French (1993) and Carhart (1997) 4-factor model estimated over days $t = −300$ to $t = −50$. Panel A plots returns for all departures, and Panel B focuses on immediate departures (i.e., departures for which the executive departure date and the departure announcement fall on the same day).

Table 1: Summary Statistics

This table presents summary statistics for our key variables. Panel A reports statistics for the firm-year panel; Panel B reports statistics for our dyadic sample; Panel C reports statistics for our executive-year panel used to study executive departures, and Panel D reports statistics for our sample of executive departures.

	N	Mean	St.Dev.	0.25	Median	0.75
Panel A: Firm-Year Panel						
Partisanship	5,936	0.638	0.412	0.333	1.000	1.000
Gender homogeneity	5,936	0.806	0.347	0.600	1.000	1.000
Racial homogeneity	5,766	0.932	0.229	1.000	1.000	1.000
Democrat share	5,936	0.310	0.327	0.000	0.333	0.500
Republican share	5,936	0.690	0.327	0.500	0.667	1.000
Male share	5,936	0.889	0.202	0.800	1.000	1.000
White share	5,766	0.958	0.141	1.000	1.000	1.000
Number of executives	5,936	5.536	1.147	5.000	5.000	6.000
Number of matched executives	5,936	2.723	0.907	2.000	2.000	3.000
Panel B: Dyadic Sample						
SFirm ($\times$ 100)	10,125,651	0.161	4.017	0.000	0.000	0.000
SParty	10,125,651	0.581	0.493	0.000	1.000	1.000
SGender	10,125,651	0.804	0.397	1.000	1.000	1.000
SEthnicity	10,125,651	0.778	0.416	1.000	1.000	1.000
SAge	10,125,651	0.411	0.492	0.000	0.000	1.000
Panel C: Executive-Year Panel						
Executive Departure	14,099	0.134	0.341	0.000	0.000	0.000
Misaligned	13,643	0.195	0.396	0.000	0.000	0.000
Tenure	14,587	6.889	5.370	3.000	5.000	10.000
White	14,587	0.889	0.314	1.000	1.000	1.000
Executive's Age	14,541	54.159	7.442	49.000	54.000	59.000
Age over 65	14,587	0.076	0.265	0.000	0.000	0.000
Female	14,587	0.104	0.305	0.000	0.000	0.000
Majority Democrat	14,587	0.238	0.426	0.000	0.000	0.000
Panel D: Executive Departure Sample						
CAR(0,+1)	896	-0.002	0.046	-0.015	-0.001	0.013
CAR(0,+2)	896	-0.002	0.053	-0.018	-0.001	0.015
CAR(0,+3)	896	-0.002	0.063	-0.022	-0.002	0.018
Immediate departure	856	0.186	0.389	0.000	0.000	0.000
Forced CEO departure	85	0.235	0.427	0.000	0.000	0.000
Misaligned	906	0.145	0.352	0.000	0.000	0.000

Table 2: Partisanship in Executive Teams over Time

This table regresses the executive team's partisanship on calendar year. The dependent variable in all panels is partisanship, defined following equation (1) as the probability that two randomly drawn team members are both Democrats or both Republicans, measured in percentage points. Panel A reports our baseline estimates using Democratic and Republican executives only. In Panel B, we add unaffiliated executives and executives affiliated with other parties. In Panel C, we treat the unmatched executives located in states that provide voter histories as unaffiliated. In Panel D, we use party information from primaries only. Panel E adds firm fixed effects. Panel F estimates a weighted least squares regression, where the weights are proportional to the log of total book assets of the firm. *No. of matches* refers to the number of matched executives in the team. *Homogeneity controls* include measures of racial, gender, and age homogeneity. The unit of observation is the firm-year. Economic effects are calculated as the coefficient on calendar year divided by the mean of the dependent variable. Standard errors, reported in parentheses, are clustered at the firm level.

Panel A: Baseline

	(1)	(2)	(3)
Year	0.7693***	0.7377***	0.7651***
	(0.2282)	(0.2284)	(0.2330)
N	5,936	5,936	5,763
R^2	0.005	0.009	0.017
Economic effect (in %)	1.21	1.16	1.20
Controls:			
No. of matches	No	Yes	Yes
Homogeneity Controls	No	No	Yes

Panel B: Including Unaffiliated Executives

	(1)	(2)	(3)
Year	0.5530***	0.5373***	0.5511***
	(0.1620)	(0.1623)	(0.1671)
N	8,882	8,882	8,634
R^2	0.003	0.004	0.009
Economic effect (in %)	2.01	1.95	2.01
Controls:			
No. of matches	No	Yes	Yes
Homogeneity Controls	No	No	Yes

Panel C: Treating Unmatched Executives as Unaffiliated

	(1)	(2)	(3)
Year	0.3808***	0.3604***	0.3946***
	(0.0510)	(0.0509)	(0.0541)
N	14,411	14,411	14,048
R^2	0.010	0.013	0.020
Economic effect (in %)	5.83	5.51	6.05
Controls:			
No. of matches	No	Yes	Yes
Homogeneity Controls	No	No	Yes

Panel D: Primaries Only

	(1)	(2)	(3)
Year	1.1871***	1.1540***	1.1979***
	(0.2531)	(0.2536)	(0.2606)
N	4,936	4,936	4,798
R^2	0.011	0.013	0.019
Economic effect (in %)	1.84	1.79	1.86
Controls:			
No. of matches	No	Yes	Yes
Homogeneity Controls	No	No	Yes

Panel E: With Firm FE

	(1)	(2)	(3)
Year	0.5166**	0.5058**	0.4860*
	(0.2426)	(0.2444)	(0.2493)
N	5,811	5,811	5,649
R^2	0.604	0.605	0.605
Economic effect (in %)	0.81	0.79	0.76
Controls:			
No. of matches	No	Yes	Yes
Homogeneity Controls	No	No	Yes
Firm FE	Yes	Yes	Yes

Panel F: Weighted Least Squares

	(1)	(2)	(3)
Year	0.7063***	0.6766***	0.6998***
	(0.2371)	(0.2379)	(0.2418)
N	5,865	5,865	5,697
R^2	0.004	0.009	0.016
Economic effect (in %)	1.11	1.06	1.10
Controls:			
No. of matches	No	Yes	Yes
Homogeneity Controls	No	No	Yes

Table 3: Gender and Racial Homogeneity in Executive Teams over Time

This table repeats Table 2, Panel A, using the executive team's gender and racial homogeneity as the dependent variable. Homogeneity is defined following equation (1) as the probability that two randomly drawn team members have the same gender (Panel A), or the same race (Panel B), measured in percentage points. The sample is restricted to executives who are Democrats or Republicans. *No. of matches* refers to the number of matched executives in the team. *Homogeneity controls* include political, racial, and age homogeneity in Panel A, and political, gender, and age homogeneity in Panel B. Economic effects are calculated as the coefficient on calendar year divided by the mean of the dependent variable.

Panel A: Gender

Dependent variable: *Gender Homogeneity*

	(1)	(2)	(3)
Year	-0.6922***	-0.6948***	-0.6619***
	(0.1821)	(0.1830)	(0.1852)
N	5,936	5,936	5,763
R^2	0.005	0.006	0.012
Economic effect (in %)	-0.86	-0.86	-0.82
Controls:			
No. of matches	No	Yes	Yes
Homogeneity Controls	No	No	Yes

Panel B: Race

Dependent variable: *Racial Homogeneity*

	(1)	(2)	(3)
Year	0.1294	0.1154	0.1097
	(0.1282)	(0.1276)	(0.1302)
N	5,766	5,766	5,763
R^2	0.000	0.002	0.008
Economic effect (in %)	0.14	0.12	0.12
Controls:			
No. of matches	No	Yes	Yes
Homogeneity Controls	No	No	Yes

Table 4: Dyadic Regression

This table reports results from dyadic regression. In both panels, the dependent variable is a binary variable equal to one if both executives work for the same firm, and zero otherwise, multiplied by 100. $SParty$ is an indicator equal to one if both executives have the same political affiliation, and zero otherwise. The estimation includes controls for shared race, age, and gender. Panel A reports estimates of the dyadic regression from equation (2). Panel B reports estimates of the dyadic regression from equation (3), which interacts $SParty$ with a time-trend variable $Year$, defined as calendar year minus 2008. The sample is restricted to Republican and Democratic executives. The unit of observation is the executive-pair $\times$ year. In Panel B, the economic effect is calculated as the coefficient on $SParty \times Year$ divided by the mean of the dependent variable. Standard errors, reported in parentheses, are clustered at the executive-pair level.

Panel A: No Trend

| | Same Firm | | | |
	(1)	(2)	(3)	(4)
SParty	0.0530***	0.0540***	0.0512***	0.0520***
	(0.0041)	(0.0041)	(0.0041)	(0.0041)
SGender			-0.0059	-0.0052
			(0.0054)	(0.0054)
SRace			0.0449***	0.0491***
			(0.0046)	(0.0047)
SAge			0.0264***	0.0269***
			(0.0046)	(0.0046)
Constant	0.1308***		0.0909***	
	(0.0029)		(0.0062)	
N	10,125,651	10,125,651	10,125,651	10,125,651
Fixed Effects:				
Year FE	No	Yes	No	Yes

43

Panel B: Including Trend

	Same Firm			
	(1)	(2)	(3)	(4)
SParty × Year	0.0046***	0.0045***	0.0043***	0.0042***
	(0.0010)	(0.0010)	(0.0010)	(0.0010)
SParty	0.0251***	0.0264***	0.0247***	0.0261***
	(0.0074)	(0.0074)	(0.0074)	(0.0074)
Year	-0.0027***		-0.0019***	
	(0.0007)		(0.0007)	
SGender			-0.0059	-0.0054
			(0.0054)	(0.0054)
SRace			0.0451***	0.0487***
			(0.0046)	(0.0047)
SAge			0.0263***	0.0267***
			(0.0046)	(0.0046)
N	10,125,651	10,125,651	10,125,651	10,125,651
Economic Effect (in %)	2.8	2.8	2.7	2.6
Fixed Effects:				
Year FE	No	Yes	No	Yes

Table 5: Dyadic Regression: Decomposition

The table repeats the analysis presented in Table 4, Panel B, column (4), with some modifications. Column (1) adds interactions between the other executive characteristics and calendar year. Column (2) uses a time-invariant measure of party affiliation, by carrying forward the first observed party affiliation for each executive. Column (3) restricts the set of executive pairs to executives who work in the same GICS sector. Column (4) restricts the set of executive pairs to executives who work in the same state. The sample is restricted to Republican and Democratic executives. The unit of observation is the executive-pair $\times$ year. The economic effect is calculated as the coefficient on $SParty \times Year$ (or $SParty\,static \times Year$) divided by the mean of the dependent variable. Standard errors, reported in parentheses, are clustered at the executive-pair level.

	Same Firm			
	(1)	(2)	(3)	(4)
SParty	0.0253***		0.2508***	0.1757***
	(0.0091)		(0.0782)	(0.0544)
SParty $\times$ Year	0.0044***		0.0224**	-0.0021
	(0.0012)		(0.0102)	(0.0071)
SParty static		0.0248***		
		(0.0094)		
SParty static $\times$ Year		0.0027**		
		(0.0012)		
SGender	0.0072	0.0074	0.0093	0.1093
	(0.0122)	(0.0123)	(0.1082)	(0.0726)
SGender $\times$ Year	-0.0019	-0.0018	-0.0151	-0.0215**
	(0.0015)	(0.0015)	(0.0133)	(0.0090)
SRace	0.0614***	0.0614***	0.6291***	0.5140***
	(0.0106)	(0.0106)	(0.0888)	(0.0587)
SRace $\times$ Year	-0.0019	-0.0017	-0.0270**	-0.0212***
	(0.0013)	(0.0013)	(0.0110)	(0.0072)
SAge	0.0280***	0.0279***	0.2496***	0.1903***
	(0.0098)	(0.0098)	(0.0841)	(0.0586)
SAge $\times$ Year	-0.0002	-0.0001	-0.0075	-0.0031
	(0.0012)	(0.0012)	(0.0107)	(0.0074)
N	10,125,651	10,125,651	1,141,810	1,675,430
Economic Effect (in %)	2.7	1.7	1.6	-0.2
Fixed Effects:				
Year FE	Yes	Yes	Yes	Yes
Same Industry	No	No	Yes	No
Same State	No	No	No	Yes

Table 6: Executive Departures

This table estimates equation (4) by regressing executive departures on an indicator equal to one if the executive's party affiliation does not match the majority of the team. The dependent variable, *Executive Departure*, is an indicator equal to one in the last year an executive is reported among the top earners of a given firm in Execucomp, and zero otherwise. *Misaligned* is an indicator equal to one if the political affiliation of the executive does not match that of the majority in the team, and zero otherwise. The estimation includes lagged controls for CEO status, executive tenure and tenure squared, race, age, whether the executive is older than 65, gender, and whether the team has a majority of Democratic executives. Columns (1) and (2) are based on the full sample, columns (3) and (4) are based on years 2008–2014, and columns (5) and (6) are based on years 2015–2019. The unit of observation is the executive $\times$ year. Standard errors, reported in parentheses, are clustered at the firm level.

Dependent variable: *Executive Departure*

Sample Period:	Full Sample		2008–2014		2015–2019	
	(1)	(2)	(3)	(4)	(5)	(6)
Misaligned	0.0231**	0.0323**	0.0050	0.0214	0.0550**	0.0531*
	(0.0102)	(0.0136)	(0.0121)	(0.0151)	(0.0228)	(0.0287)
CEO	-0.0783***	-0.0738***	-0.0879***	-0.0746***	-0.0771***	-0.0704***
	(0.0089)	(0.0094)	(0.0123)	(0.0123)	(0.0141)	(0.0138)
Tenure	0.0086***	0.0027	0.0135***	0.0077**	0.0062*	-0.0005
	(0.0022)	(0.0026)	(0.0034)	(0.0039)	(0.0038)	(0.0038)
Tenure^2	-0.0003***	-0.0001	-0.0005***	-0.0004*	-0.0003*	-0.0000
	(0.0001)	(0.0001)	(0.0002)	(0.0002)	(0.0002)	(0.0002)
White	-0.0078	-0.0062	0.0190	0.0184	-0.0455*	-0.0340
	(0.0157)	(0.0153)	(0.0237)	(0.0214)	(0.0249)	(0.0248)
Executive's Age	0.3689***	0.3585***	0.3471***	0.3135***	0.4507***	0.4264***
	(0.0382)	(0.0405)	(0.0517)	(0.0517)	(0.0636)	(0.0603)
Age over 65	0.0507**	0.0472**	0.0288	0.0234	0.0590*	0.0661**
	(0.0208)	(0.0222)	(0.0307)	(0.0311)	(0.0322)	(0.0331)
Female	0.0143	0.0087	0.0166	0.0112	0.0050	0.0052
	(0.0155)	(0.0152)	(0.0219)	(0.0207)	(0.0234)	(0.0218)
Majority Democrat	-0.0270*		-0.0112		-0.0300	
	(0.0164)		(0.0184)		(0.0517)	
N	11,623	9,789	6,548	5,459	4,991	4,330
R^2	0.140	0.436	0.166	0.419	0.218	0.452
Fixed Effects:						
Firm FE	Yes	No	Yes	No	Yes	No
Year FE	Yes	No	Yes	No	Yes	No
Firm $\times$ Year FE	No	Yes	No	Yes	No	Yes
Politics Affiliation	Yes	Yes	Yes	Yes	Yes	Yes

Table 7: Executive Departures and Firm Value

Panel A regresses cumulative abnormal stock returns around announcements of executive departures on an indicator for executives who are misaligned with the team's majority. Abnormal returns are estimated based on the Fama and French (1993) and Carhart (1997) 4-factor model estimated over days $t = -300$ to $t = -50$. In Panel B, we regress an indicator for forced CEO departures on misalignment. In both panels, controls include the same executive and firm characteristics as in Table 6. Standard errors are clustered at the firm level.

Panel A: Abnormal Stock Returns

	Cumulative Abnormal Return					
	(0,+1)		(0,+2)		(0,+3)	
	(1)	(2)	(3)	(4)	(5)	(6)
Misaligned	-0.0146**	-0.0150**	-0.0171**	-0.0172**	-0.0162**	-0.0160*
	(0.0068)	(0.0069)	(0.0078)	(0.0079)	(0.0081)	(0.0083)
N	896	896	896	896	896	896
R^2	0.033	0.039	0.033	0.038	0.026	0.034
Fixed Effects and Controls:						
Year	Yes	Yes	Yes	Yes	Yes	Yes
Political affiliation	Yes	Yes	Yes	Yes	Yes	Yes
Controls	No	Yes	No	Yes	No	Yes

Panel B: Forced CEO Departure

	Forced CEO Departures	
	(1)	(2)
Misaligned	0.2541*	0.2705**
	(0.1516)	(0.1297)
N	85	85
R^2	0.061	0.159
Fixed Effects and Controls:		
Year	Yes	Yes
Political affiliation	Yes	Yes
Controls	No	Yes

Appendix: Variable Definitions

Table A.1: Variable Descriptions

Variable	Description
Dependent variables	
Partisanship	The probability that two randomly drawn executives from the same firm are either both Republicans or both Democrats, as identified in the voter registration records. Computed following equation (1).
Gender homogeneity	The probability that two randomly drawn executives from the same firm have the same gender. Computed as $(N \times (\gamma_F^2 + (1 - \gamma_F)^2) - 1)/(N - 1)$, where γ_F refers to the share of female executives and N refers to the number of executives in the team. Gender information is obtained from Execucomp.
Racial homogeneity	The probability that two randomly drawn executives from the same firm have the same race (white vs. non-white). Computed as $(N \times (\gamma_W^2 + (1 - \gamma_W)^2) - 1)/(N - 1)$, where γ_W refers to the share of white executives and N refers to the number of executives in the team. Information on race is obtained by applying the API name-prism.com to executives' first and last names.
Same firm	An indicator equal to one if both executives work at the same firm, and zero otherwise.
Executive departure	An indicator equal to one in the last year an executive is reported among the top earners of a given firm in Execucomp, and zero otherwise.
CAR ($-\tau,+\tau$)	Cumulative abnormal return, measured over trading days $-\tau$ to $+\tau$ around the announcement of an executive departure. Abnormal returns are calculated using the Fama and French (1993) and Carhart (1997) 4-factor model estimated over days $t = -300$ to $t = -50$ and requiring a minimum of 100 non-missing observations. Announcement dates of executive departures are obtained using Factiva and online searches.
Forced CEO departure	An indicator equal to one if the departure of the CEO is coded as involuntary, and zero otherwise, using the information provided by Peters and Wagner (2014).
Key independent variables	
Year	Calendar year.
SParty	An indicator equal to one if both executives have the same political affiliation, and zero otherwise. Political affiliation is obtained from voter registration records.
Misaligned	An indicator equal to one if the political affiliation of the executive does not match that of the majority in the team, and zero otherwise. If the team has no clear majority, the variable is set to missing. Political affiliation is obtained from voter registration records.
Control variables	
No. of matches	The number of executives in the team who are matched to a voter registration record and are identified as either Democrat or Republican.
SGender	An indicator equal to one if both executives have the same gender, and zero otherwise. Gender information is obtained from Execucomp.
SRace	An indicator equal to one if both executives have the same race (white vs. non-white), and zero otherwise. Race is obtained by applying the API name-prism.com to executives' first and last names.
SAge	An indicator equal to one if the age gap between the two executives is at most five years, and zero otherwise.
Tenure	Tenure of the executive in the firm, measured in years. Obtained from Execucomp.

Variable	Description
Tenure^2	Tenure of the executive in the firm, measured in years, squared. Obtained from Execucomp.
White	An indicator equal to one if the executive is white, and zero otherwise. Information on race is obtained by applying the API name-prism.com to executives' first and last names.
Age	The executive's age as reported in Execucomp.
Age over 65	An indicator equal to one if the executive's age is greater or equal to 65 years, and zero otherwise. Age is obtained from Execucomp.
Female	An indicator equal to one if the executive is female, and zero otherwise. Gender information is obtained from Execucomp.
Majority Democrat	An indicator equal to one if the number of Democratic executives is larger than the number of Republican executives in a given executive team, and zero otherwise.