The Political Polarization of Corporate America[☆]

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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. Executives who are in the political minority are more likely to leave their teams, especially in recent years, and their company's stock price responds negatively to the announcement of their departure. Combined, our findings indicate that the increasing political polarization of corporate America may not be in the financial interest of shareholders.

1. Introduction

Americans are increasingly divided across partisan lines (e.g., Iyengar, Sood, and Lelkes, 2012; Mason, 2013; Lott and Hassett, 2014; Mason, 2015; Gentzkow, 2016; Boxell, Gentzkow, and Shapiro, 2017; Iyengar, Lelkes, Levendusky, Malhotra, and Westwood, 2019). 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 relationships, including marriages, and geographies are becoming increasingly politically homogeneous (e.g., Iyengar, Konitzer, and Tedin, 2018; Huber and Malhotra, 2017; Brown, Cantoni, Enos, and Pons, 2022). By contrast, we know little about political polarization in the workplace, how it has changed over time, and how it affects firm outcomes.[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 outcomes.

Whether changes in political polarization of executive teams should be similar to trends observed in the general population is a priori not clear. First, if politically homogeneous teams are less efficient, competitive pressure may limit the degree of polarization in the workplace. In fact, the workplace has historically been more politically diverse and provided more opportunities for cross-party interactions than other contexts, such as the family, the neighborhood, or the voluntary association (Mutz and Mondak, 2006; Hertel-Fernandez, 2020). Second, investors,

[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).

regulators, and stock exchanges have applied pressure to increase diversity 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 the partisanship of an executive team as the degree to which a single party dominates political views within the same team.[2] 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. 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.

Next, we measure how much of the increase in partisanship is driven by changes in the share of Republicans and Democrats in the overall population of executives, and how much is driven by 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). We further show that the vast majority (i.e., 78%) of the within-firm increases in partisanship can be attributed to turnovers in the executive team, with the remainder being roughly equally split between executives registering with a party for the first time and party switchers.

To provide a more formal test of the increase in assortative matching, we estimate a dyadic regression. 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 simultaneously control for the influence of

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

other executive characteristics (gender, race, and age) on executive matching. Our results show executives who share the same political party are 34% more likely 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 also helps explain some of the positive time trend, but its 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 shed light on the role of political views in executive-team formation, we document evidence consistent with political views affecting executives' departures from the firm. We find that, within a given firm-year, executives who are in the political minority of the team ("misaligned" executives) 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 departures of politically misaligned executives have any economic consequences. Studying abnormal stock returns around the departures of politically aligned and misaligned executives reveals that departures of misaligned executives are associated with substantially larger losses for shareholders. The incremental losses to shareholders around the departures of executives who are politically misaligned with their team amount to \$235 million. We also find evidence that departures of misaligned CEOs are more likely to be involuntary. Combined, these findings suggest shareholders view the departures of misaligned executives as detrimental to firm value.

What drives the increase in the political polarization of executive teams? We provide evi-

[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.

dence consistent with belief disagreement among partisan executives contributing to the increased departure propensity of misaligned executives. We study personal portfolio choices by executives around presidential elections to measure executives' beliefs about the future performance of their own companies. Comparing sales of company stock across executives with different party affiliations within the same team allows us to study executives' revealed economic beliefs while controlling for a large number of potentially confounding factors. We find that the beliefs of Democratic and Republican executives diverge sharply around recent presidential elections. In light of prior evidence linking executive optimism to corporate financing and investment decisions (e.g., Malmendier and Tate, 2005), this finding indicates that executives with different party affiliations may profoundly disagree on how their firms should be run. Consistent with this idea, we also see that a greater partisan gap in executives' trades around presidential elections is associated with a greater partisan gap in the propensity to leave the firm.

The rest of this study proceeds as follows. In the next section, we discuss the related literature. Section 3 presents the data, the sample construction, and summary statistics. Section 4 documents our findings regarding the time trend in executive teams' partisanship and assortative matching. Section 5 examines the stock price reaction to announcements of departures by aligned and misaligned executives. Section 6 presents evidence on belief disagreement among partisan executives as a potential economic mechanism. Section 7 provides a discussion of our results, and section 8 concludes.

2. Related Literature

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; Kem, 2023), 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 M&A activity and outcomes, 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 assess 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 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

[4]A large literature examines the benefits and costs of team homogeneity, starting with the seminal work of Becker (1957). Marx, Pons, and Suri (2021) offer an excellent summary. See Evans, Prado, Rizzo, and Zambrana (2022) and Vorsatz (2021) for examples of recent work studying the relationship between political diversity and team performance in the financial sector.

voter registration records rather than political contributions to infer political preferences and we focus on the time trend in partisan homogeneity.

3. Data Sources and Sample Description

3.1. 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 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%.

3.2. 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

[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 4.5 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.

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 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)

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

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.

3.3. Insider-Trading Data

Sections 16(b) and 10(b) of the Securities Exchange Act of 1934 serve as the base for regulating insider trading; i.e., trading by executives of their own company's securities. We obtain data on insider trading from the Thomson Reuters Insider Filing Data Files, which contain data on insider trading activities by corporate executives. We use information from Table 1, which discloses transactions at the insider-security level, and primarily focus on security sales, because the vast majority of insider transactions constitute sales of shares obtained as part of the executive's compensation package. We merge the insider-trading data to our sample of corporate executives from Execucomp using company names as well as executives' first and last names.

3.4. 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 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

[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/.

Appendix, we describe in detail how we link the executives in our sample to address histories from Infutor.

3.5. 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. In a robustness test, we use data from a broader sample of 20 states, which all provide a party affiliation snapshot for each voter.

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 whenever the executive's age is 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). Out of the 6,679 we match, 4,343 executives working in 1,282 firms are affiliated with either the Democratic or Republican party.

Throughout our analysis, we further restrict the sample to firms with at least two matched executives, reducing the sample to 941 unique firms. In the Internet Appendix, we plot descriptive statistics for this sample. The number of unique firms is more than 400, and the number of unique partisan executives is more than 1,000 in all calendar years. Executives whom we can match to a voter record ("matched" executives) represent, on average, between 58% and 67% of the executives in these firms, which corresponds to approximately 3.3 to 3.7 executives for the average firm-year. We also show the geographical distribution of firms and executives across the nine states. The majority of firms are located in California, followed by Texas, Illinois, and Ohio. Our sample

covers 19%–46% of the aggregate market capitalization of all S&P 1500 firms, depending on the exact sample we use. Importantly, as we will show below, our results are robust across all these samples, alleviating concerns about external validity.

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.

3.6. Summary Statistics

Table 1 reports summary statistics for the four samples used in our subsequent analysis. Across all panels except Panel E, 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]

4. The Partisanship of U.S. Executive Teams

4.1. Distribution of Executives' Party Affiliations

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 observe a decrease in the share of unaffiliated executives. This result 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 strong partisan allegiances (e.g., Abramowitz, 2018). In the Internet Appendix, we repeat the analyses from Panels A and B from Figure 1, using an alternative commercial dataset of voter registrations, provided by L2, Inc. The dataset provided by L2 covers all states but has the disadvantage of starting in 2014. We find a very similar distribution of executives' party affiliations in this much larger sample.[9]

[Insert Figure 1 here]

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

[9]We match 54% of all executives in Execucomp to a voter record in L2 between 2014 and 2020.

executive population as a whole is more politically 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).[10]

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.

Finally, Panels E and F report the share of Democratic executives by role and state, respectively. We observe the lowest share of Democratic executives (25.7%) among CFOs, followed by COOs (27.9%) and CEOs (28.5%). The share of Democrats is substantially larger among executives in general counsel / chief legal officer positions (47.6%). The three states with the highest share of Democrats are Massachusetts, New York, and California, and the three states

[10]We are grateful to Adam Bonica for sharing with us an extension of the data on political contributions for the years 2014 to 2018.

with the lowest share of Democrats are North Carolina, Ohio, and Texas.

4.2. 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:

$$\widehat{Partisan}_{ft} = \frac{N_{ft} \times Partisan_{ft} - 1}{N_{ft} - 1}, \tag{1}$$

where $Partisan_{ft} = (\frac{D_{ft}}{D_{ft}+R_{ft}})^2 + (\frac{R_{ft}}{D_{ft}+R_{ft}})^2$, and D_{ft} and R_{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 ($N_{ft} = D_{ft} + R_{ft}$).

Our measure has a number of desirable properties. First, it has an intuitive interpretation, capturing the probability that two randomly (with replacement) 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).

The solid line in Figure 2, Panel A, 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.

[Insert Figure 2 here]

In Table 2, we show the positive time trend in Figure 2 is statistically significant. We regress the partisanship measure for each firm-year on calendar-year dummies as well as on other controls and fixed effects. Standard errors are clustered at the firm level. The coefficient on the year 2020 in column (1) replicates the finding that partisanship has increased by 7.7 percentage points between 2008 and 2020, representing an increase of 12% relative to the mean. Our estimate

of the slope coefficient remains remarkably stable when we control for the number of partisan executives in column (2) as well as for other dimensions of diversity of the executive team (gender, race, and age) in column (3). Figure 2, Panel B, plots the coefficients from column (1), together with their 95% confidence intervals.

[Insert Table 2 here]

The Internet Appendix reports results for two alternative measures of executive-team partisanship. The first measure is an indicator equal to one if all partisan 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 economic magnitude of the increase in those alternative measures over time is even larger.

4.3. Monte Carlo Simulations

Next, 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, Panel A), 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.[11] 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 4.

[Insert Figure 4 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

[11] 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).

sample in all years. Hence, we can reject the null 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, Panel A, visualizes 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 4. In 2020, the difference between the actual and the simulated partisanship measure is 4.7 percentage points larger than it was in 2008. The increased matching of executives on political affiliation can thus explain approximately 61% (=4.7/7.7) 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.

4.4. 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. The solid lines in Figure 5 plot the average gender and race homogeneity by calendar year. Although we see a high *level* of homogeneity in gender, the sign of the trend is negative. The negative trend is statistically significant, as we show in the Internet Appendix, where we repeat Table 2 using gender and race homogeneity as the dependent variable. For race, we observe an even higher level of homogeneity and 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 in gender and race tends to further increase our estimate of the increase in partisanship (see Table 2, column (3)).

[Insert Figure 5 here]

We also repeat the simulation exercise for gender and racial homogeneity. The simulated measures of homogeneity under the assumption of random matching are shown by the dashed lines in Figure 5. We find no evidence of increased matching on gender in Panel A, or on race in Panel B.

4.5. Dyadic Regressions

The simulation results above suggest executives increasingly matching on political affiliation is an important driver of the observed increase in the partisanship of executive teams. This section develops a more formal test of assortative matching on political affiliation. We follow 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. Panel B of Table 1 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%. We then estimate the following regression:

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

where $SFirm_{ikt}$ is an indicator taking a value of 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 in year t, 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.

The results are reported in Table 3. The reported coefficients are multiplied by 100 to ease the interpretation of the economic magnitudes. Column (1) shows that the likelihood that two executives work in the same firm increases by about 5 basis points when they belong to the same political party. This effect is sizable given that the unconditional likelihood of working for the same firm is 16.1 basis points. Column (2) further shows 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.

[Insert Table 3 here]

To assess whether the role of political affiliation in explaining executive matching has changed over time, we estimate equation (2) separately for each calendar year in our sample. Figure 6 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 6 here]

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

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

The resulting estimates, reported in columns (3) and (4) of Table 3, indicate that, as of 2008, executives who share the same party affiliation are 2.61 basis points 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, this change represents an increase of 33%.

We perform a series of additional tests in the Internet Appendix to verify the robustness of the observed increase in assortative matching on party affiliation. First, our results in Table

3 are robust to using the non-parametric, sandwich-type robust variance estimator proposed by Aronow, Samii, and Assenova (2017). Second, they are robust to interacting also the other executive characteristics (shared gender, age, and race) 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, making the increase in matching on political affiliation even more striking. Second, we obtain a very similar pattern as the one in Figure 6 if we add unaffiliated executives, or if we treat all unmatched executives located in the nine states spanned by our voter registration data as unaffiliated. Furthermore, we can use party information from primaries only, allowing us to use a consistent measure of party affiliation across all nine states. Third, we document that the increase in assortative matching also holds in a much 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.[12] Whereas we cover 19% of the aggregate market capitalization of all S&P 1500 firms in our main sample (27% if we include unaffiliated), this broader sample covers 29% of the aggregate market capitalization (46% if we include unaffiliated). As a result of using a larger sample, the number of observations in our dyadic regression increases from 10.0 million to 46.5 million. We continue to see a positive and significant increase in political assortative matching in this much broader sample, mitigating concerns about the external validity of our results.

4.5.1. Extensions

Next, we explore to what extent the increased matching on political affiliation is driven by increasing partisan segregation by states and industries, versus executives increasingly sorting on political affiliation within the same industry or state. In columns (1) and (2) of Table 4, 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 in column (2) declines to 17%. This observation indicates industries

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

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 (3)). However, the positive time trend disappears in column (4). Hence, the increase in political assortative matching documented above is largely driven by partisan segregation of executives across states. That said, we continue to find a statistically significant increase in assortative matching within the same state for Ohio and Texas (see Internet Appendix).

[Insert Table 4 here]

The results on geographical segregation raise the question of the extent to which they reflect 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 3, column (4), and store the coefficient on $SParty \times Year$. The blue histogram in Figure 7, 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 3, 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, 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 7 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 Democratic 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 Republican 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, then we would use a share of 67% Republican executives in the state as the input for our simulation in 2009.

Panel B of Figure 7 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 similar to the executives 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 larger: 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 7). 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.

4.6. Decomposition

Our analysis thus far has focused on separating changes in the overall population of executives in a given geography from changes in assortative matching. Another way to decompose the data is to study how much of the change in a firm's partisanship is driven by factors such as executives registering with a party for the first time, executives switching party, or executive turnovers. Our approach follows Brown, Cantoni, Enos, and Pons (2022), who decompose changes in the share of Democratic voters in a given geography into several factors using partial derivatives. Specifically, the change in the partisanship of firm f's executive team between year

$t-1$ and year t can be written as follows:

$$\begin{aligned}\Delta\widehat{\text{Partisan}}_{ft} &\approx \frac{2R_{t-1}(R_{t-1}-R_{t-1}^2+D_{t-1}^2)}{(D_{t-1}+R_{t-1})^2(D+R-1)^2}\Delta D_t + \frac{2D_{t-1}(D_{t-1}-D_{t-1}^2+R_{t-1}^2)}{(D_{t-1}+R_{t-1})^2(D+R-1)^2}\Delta R_t \\ &\approx \sum_k \frac{2R_{t-1}(R_{t-1}-R_{t-1}^2+D_{t-1}^2)}{(D_{t-1}+R_{t-1})^2(D+R-1)^2}\Delta D_{kt} + \frac{2D_{t-1}(D_{t-1}-D_{t-1}^2+R_{t-1}^2)}{(D_{t-1}+R_{t-1})^2(D+R-1)^2}\Delta R_{kt} \quad (4) \\ &\approx \sum_k \Delta_{kt},\end{aligned}$$

where the explaining factors are indexed by k and ΔD_{kt} (ΔR_{kt}) refers to the net change in the number of Democratic (Republican) executives in firm f between year $t-1$ and year t due to factor k, and

$$\Delta_k = \frac{2R_{t-1}(R_{t-1}-R_{t-1}^2+D_{t-1}^2)}{(D_{t-1}+R_{t-1})^2(D+R-1)^2}\Delta D_{kt} + \frac{2D_{t-1}(D_{t-1}-D_{t-1}^2+R_{t-1}^2)}{(D_{t-1}+R_{t-1})^2(D+R-1)^2}\Delta R_{kt}.$$

We consider three factors: (i) executives registering with a political party or voting in a primary election for the first time; (ii) executives switching party affiliation, and (iii) executive turnovers.

For new registrations and first-time primary voters, ΔD_{kt} and ΔR_{kt} can be written as:

$$\begin{aligned}\Delta D_{\text{new reg}} &= N_{\text{new reg}} s^D_{\text{new reg}} \\ \Delta R_{\text{new reg}} &= N_{\text{new reg}} s^R_{\text{new reg}},\end{aligned}$$

where $N_{\text{new reg}}$ is the number of executives who register with a party / vote in a primary for the first time in year t and $s^D_{\text{new reg}}$ and $s^R_{\text{new reg}}$ are the shares of newly registered executives that are Democrat / Republican, respectively.

For within-person party switches between Democrats and Republicans, ΔD_{kt} and ΔR_{kt} are defined as follows:

$$\begin{aligned}\Delta D_{\text{switchers}} &= R_{t-1}\alpha - D_{t-1}\beta \\ \Delta R_{\text{switchers}} &= D_{t-1}\beta - R_{t-1}\alpha,\end{aligned}$$

where α refers to the share of Republican executives in $t-1$ who become Democrats and β refers to the share of Democratic executives in $t-1$ who become Republicans.

Finally, changes in the number of Democratic and Republican executives due to turnovers are given by:

$$\Delta D_{\text{turnover}} = N_{\text{joiners}} s^{D}_{\text{joiners}} - N_{\text{leavers}} s^{D}_{\text{leavers}}$$
$$\Delta R_{\text{turnover}} = N_{\text{joiners}} s^{R}_{\text{joiners}} - N_{\text{leavers}} s^{R}_{\text{leavers}},$$

where N_{joiners} is the number of executives who join company f in year t and s^{D}_{joiners} and s^{R}_{joiners} are the shares of joining executives that are Democrat / Republican, respectively. N_{leavers}, s^{D}_{leavers}, and s^{R}_{leavers} are defined analogously, using executives who leave company f in year t.

To obtain the relative importance of each factor, we divide the implied change in partisanship due to factor k (Δ_{kt}) by the total implied change in partisanship ($\sum_k \Delta_{kt}$). Figure 3 plots the results from the decomposition for the subset of firm-years that experience an increase in executive-team partisanship. Approximately 78% of the increases in partisanship within the same firm are driven by executive turnovers. Party switchers and executives registering / voting in primaries for the first time also contribute positively to the increase in partisanship, but they play a smaller role. In other words, political assimilation of executives to their team members does contribute to the increase in partisanship, but the vast majority of the effect is coming from changes in executive team composition. We explore this feature of the data in more detail in section 4.7 below.

[Insert Figure 3 here]

4.7. 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' departures from their firms. Specifically, we test whether executives who hold different political views than those of the majority of the team are more likely to depart.

We begin by constructing an executive-firm-year panel based on the information on executives' employment spells in Execucomp. We define *Executive Departure* as 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.[13] Panel C of Table 1 reports the summary statistics for this sample. The average likelihood of an executive's departure is 13.4%. The average tenure in the current position is 6.9 years, 7.6% of executives are older than 65 years, 88.9% of executives are white, and 10.4% are women.

We then estimate the following regression:

$$Executive\,Departure_{ift} = \alpha_{ft} + \alpha_p + \beta Misaligned_{if,t-1} + \delta' X_{if,t-1} + \varepsilon_{ift}, \tag{5}$$

where f, i, and t index firms, executives, and years, respectively. p denotes the executive's political affiliation (Democrat or Republican). $Misaligned$ 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. The variable is lagged. 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 partisan 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.

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 5 presents the results. We observe that executives who are politically misaligned with

[13]Departures are thus identified as instances in which the executive is no longer reported for a given firm in Execucomp. 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 departures indeed coincided with a departure from the firm.

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 2.6-percentage-point-higher probability of leaving the firm than executives who are misaligned.

[Insert Table 5 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 0.12–2.1 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.[14] In the Internet Appendix, we show the results are robust to including unaffiliated executives.

5. Economic Consequences

An important remaining question is whether the departures of politically misaligned executives have any economic consequences. From a theoretical perspective, the implications of reduced political diversity on firm value are ambiguous. On the one hand, a shift towards greater political homogeneity may be perceived negatively by shareholders if it signals inefficient hiring or firing decisions. On the other hand, if partisan disagreement leads to deadlock in politically diverse teams (e.g., Donaldson, Malenko, and Piacentino, 2020), then the departures of politically misaligned executives may be in the interest of shareholders.

To provide some initial evidence on this question, we study how shareholders view the value implications of executive departures by analyzing abnormal stock returns around the departure

[14]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.

announcements. For each partisan executive departure in our sample, 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 1,326 out of 1,741 departures. To obtain abnormal returns, we use an event window from five trading days before the announcement date to five trading days after the announcement and estimate a Fama and French (1993) and Carhart (1997) four-factor model over days $t = -300$ to $t = -50$. After requiring firms to have non-missing abnormal returns in the full eleven-day event window, and after removing departure announcements that occur on a month-end (45 events) as well as departures from executive teams without a clear majority (233 events), our sample consists of 922 executive departures.[15]

Panel D of Table 1 reports summary statistics for our sample of executive departures with non-missing abnormal returns around the announcement. The sample is restricted to partisan executives who are leaving a team with a clear partisan majority (i.e., we exclude departures from teams with a tie between Democrats and Republicans). The average cumulative abnormal return over trading days (0,+1) around the announcement of an executive departure is ca. –20 basis points. 17.4% of executives depart on the same as the announcement of their departure ("immediate" departures), and 23.9% of CEO departures are involuntary. 14% of these departures involve an executive who is misaligned with the political majority of the team, where alignment with the team is measured as of the firm's previous fiscal year-end. 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.

Figure 8 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. Using stock prices in a narrow window around the departure announcement allows us 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. Panel A

[15] We exclude month-end announcements because they often coincide with other financial disclosures by the company.

shows CARs around all departures, whereas Panel B plots 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 (e.g., they are unlikely to include planned retirements).

[Insert Figure 8 here]

Two things are worth noting in Figure 8, 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 1.3 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).

In Table 6, 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 during an event window of two to three trading days around the departure announcement, on an indicator for misaligned executives and on controls for the same executive characteristics as in Table 5. We further control for year fixed effects, lagged firm characteristics (firm size, leverage, investment, cash holdings, and sales growth), as well as for concurrent earnings surprises. The summary statistics for the control variables are reported in the Internet Appendix. For brevity, 5 reports only the coefficient on *Misaligned*; the full list of coefficients is reported in the Internet Appendix. Interestingly, none of the other executive characteristics are associated with significant differences in cumulative abnormal returns after controlling for political misalignment.

[Insert Table 6 here]

Depending on the length of the event window, we estimate a difference in the abnormal stock returns around the departure between –1.3% (column (3)) and –1.6% (column (6)). For the average firm in our sample, this effect translates into incremental dollar losses of at least $235 million around the announcement of a misaligned executive departure. These differences are even larger once we focus on immediate departures or when we increase the length of the event window to 61 trading days, as reported in the Internet Appendix.

One potential interpretation of these results is that departures of misaligned executives are more sensitive to poor firm performance; i.e., they more often coincide with instances of large negative news shocks about the firm. Data on firms' earnings announcements suggests this is likely not the case. For the few executive departure announcements that coincide with earnings announcements, there are no statistically or economically significant differences in the average earnings surprise between aligned and misaligned executives (see Internet Appendix). Moreover, our point estimates in columns (3) and (6) remain very similar once we control for lagged firm characteristics as well as for concurrent earnings surprises.

To further 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 6, 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 executive characteristics as in Table 6, Panel A. Due to the small sample size (88 CEO departures with non-missing information on the forced vs. non-forced nature of the departure), we control for calendar year linearly as opposed to via year fixed effects. We see that, conditional on departing from the firm, CEOs who are misaligned with the rest of the team have a 23-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.

Additional results suggest that the stock price reaction to the departure of misaligned executives depends on the political alignment of their replacement. If they are replaced with an executive who is aligned with the majority of the team (37% of all misaligned departures), then the stock price reaction tends to be substantially more negative than when the misaligned executive is replaced with a misaligned executive (36% of all misaligned departures). These findings suggest that investors already form some expectation about the potential successor at the time of the departure announcement, which seems plausible. We manually search for concurrent announcement of successors and find that 30% of the departure announcements coincide with an announcement about the successor.

The larger decline in the stock price around departures of misaligned executives is consistent with at least two non mutually exclusive explanations. First, it could reflect the effect of a loss in

team diversity, such as the economic cost of increased group think. This interpretation requires investors to recognize that the departing executive holds views that differ from those of the other team members. Given the positive correlation between party affiliations inferred from voter registration records and party affiliation inferred from political contributions documented above, investors have access to publicly observable signals about the executive's political fit with the team. Second, it could reflect the fact that misaligned executives tend to have higher ability, which could be the case if partisan disagreement causes even very capable executives to leave, or if misaligned executives are discriminated in the hiring process. Intuitively, the only Democrat executive in an otherwise all-Republican team is likely of high ability if there is a preference to hire in-group executives. This interpretation does not require investors to be knowledgeable about the the executive's political alignment with the team; it only requires them to recognize that the departing executive is a high-skill type.

6. Mechanism: Partisan Disagreement

A growing literature documents the importance of political partisanship as a determinant of individuals' economic views. In particular, alignment with the president has been shown to be a very strong predictor of households' views of economic conditions (Mian, Sufi, and Khoshkhou, 2021). Moreover, partisan divergence in economic views influences the decisions by very sophisticated individuals in high-stakes environment, such as credit analysts (Kempf and Tsoutsoura, 2021), loan officers (Dagostino, Gao, and Ma, 2020), and professional asset managers (Cassidy and Vorsatz, 2021). Hence, one channel that may contribute to the increase in assortative matching is that executives increasingly disagree on economic issues. Such disagreement can cause frictions inside the team, leading to a greater likelihood of departure among executives whose political views are not aligned with the rest of the team. This mechanism could jointly explain the greater likelihood of departure for misaligned executives in recent years and the higher prevalence of forced departures among CEOs who are in the political minority.

6.1. Trading of Company Stock as a Proxy for Beliefs

We begin by documenting increasing disagreement across partisan lines in executives' views of their company's future stock performance. Executives' trades of their own company's stock

("insider trades") allow us to study their revealed beliefs around highly salient political events—party-switching presidential elections. We obtain data on insider trades for the firms in our sample from Thomson Reuters, as described in section 3, and restrict the sample to trades occurring between three months prior to three months following the 2016 and 2020 presidential elections, respectively. Table 1, Panel E, reports statistics for the insider-trading sample, with the unit of observation being an insider-month. The likelihood of an insider selling company stock in a given month is 14.6%. We focus on sales rather than purchases of company stock because purchases are more rare (ca. 2% of all insider-months).

To study the relationship between an insider's political affiliation and her trading decisions, we estimate the following regression:

$$\text{Insider Sell}_{ifet} = \alpha_{fet} + \alpha_{ie} + \beta \text{Election}_{et} \times \text{PartyWins}_{ie} + \gamma \text{Election}_{et} \times \text{Unaff.}_{ie} + \varepsilon_{ifet}, \quad (6)$$

where $Insider\ Sell_{ifet}$ equals one if insider i sells shares of firm f in year-month t around presidential election e, and $Election_{et}$ equals one for the month of the presidential election (November), and zero otherwise. $PartyWins_{ie}$ equals one if insider i is a registered Republican, and zero otherwise, in the 2016 election; it equals to one if insider i is a registered Democrat, and zero otherwise, in the 2020 election, and it equals 0.5 for unaffiliated executives and insiders who cannot be linked to a voter registration record. $Unaff._{ie}$ is an indicator equal to one for unaffiliated executives and insiders who cannot be linked to a voter registration record, and zero for partisan insiders. Note that, whether we code unaffiliated and unmatched insiders as aligned or misaligned does not affect our estimate of β in equation 6. The main benefit of including unaffiliated and unmatched insiders in our analysis is that it allows us to estimate the fixed effects more precisely. α_{fet} and α_{ie} refer to firm $\times$ month and insider $\times$ election fixed effects, respectively. The main coefficient of interest is β, which captures the change in the relative propensity to sell between executives whose party aligns (does not align) with the newly elected president. If a presidential election induces greater optimism about the firm's future performance among executives who support the president than among executives who do not support the president, then we would expect a relative decrease in the likelihood of insider selling for executives whose party wins the election (i.e., $\beta < 0$).

Table 7 reports the results. In column (1), we find that the coefficient estimate of β is negative and significant, indicating that executives with different party affiliations diverge in their beliefs about future stock performance. Executives who are aligned with the party of the elected president are about 6 ppt less likely to sell shares during the election month. This is a large effect relative to the unconditional probability of an insider sale of 14.6%. In other words, executives who support the new president become much more optimistic about the future stock performance of their company, relative to other executives with the opposite party affiliation. Importantly, these results are obtained with firm $\times$ month fixed effects, implying that the estimates are not affected by any unobservable, time-varying characteristics of the firm.

[Insert Table 7 here]

Columns (2) and (3) report the results from two important alternative specifications. Column (2) shows that the point estimate remains almost unchanged once we explicitly control for the time-varying behavior of unaffiliated executives. Column (3) shows that our estimates remain again very similar if we include executive $\times$ election fixed effects, thereby removing any time-invariant differences in the propensity to sell company stock across executives. The executive $\times$ election fixed effects further subsume the time-varying executive characteristics in Table 5.

Whereas Table 5 reports results for the 2016 and 2020 presidential elections, the Internet Appendix shows results for the 2008 election. Even though our estimate of β continues to be negative, it is smaller in magnitude (between 1.8 and 2.2 ppt, depending on the exact specification) and statistically insignificant. Taken together, these findings indicate that executives with different party affiliations increasingly differ in their views of their companies' fundamentals. In light of existing studies linking executive optimism to corporate financing and investment decisions (e.g., Malmendier and Tate, 2005), executives with different party affiliations may thus profoundly disagree on how their firms should be run.

6.2. Partisan Trading Gap and Executive Departures

To test whether belief disagreement across partisan executives predicts executive departures, we link the documented partisan gap in executives' insider trading to the likelihood of misaligned and aligned executives leaving the firm. In this part of our analysis, the unit of observation is the firm-year. We regress an indicator equal to one for firm-years in which a (mis)aligned executives

departs from the firm on the trading gap between the Democratic and Republican executives from the same team in the most recent party-switching presidential election. We control for the same executive and firm characteristics as in Table 6, Panel A. We further control for the number of partisan executives and the share of misaligned executives among the partisan executives, since both variables are strongly correlated with the likelihood of an aligned or misaligned executive departure, as well as for year and firm fixed effects. In order to be able to include a larger sample, we set the partisan trading gap equal to zero whenever trading information for Democratic or Republican insiders is missing and separately control for instances with a missing partisan gap.

Table 8 reports the results. We see that a one-standard-deviation-larger partisan gap in trading in the most recent presidential election increases the likelihood of a misaligned executive leaving the firm by 1.42 (=0.1416 $\times$ 0.10) percentage points and decreases the likelihood of an aligned executive leaving the firm by 2.01 (=0.2011$\times$0.10) percentage points. Even though the effect on misaligned departures is not statistically significant, the difference in the effect on aligned vs. misaligned departures is statistically significant at the 5% level (see p-value reported at the bottom of the table). The effects are also sizable relative to the unconditional likelihood of an aligned (misaligned) executive departure of 23.0% and 7.6%, respectively. These results imply that a greater partisan gap in trading is associated with a greater partisan gap in the propensity to depart.

[Insert Table 8 here]

Combined, these results indicate that disagreement about the state of the economy and optimal firm policies may have contributed to the increasing departure rate of misaligned executives. However, it is important to note that we cannot rule out that other factors may have also played a role. For example, U.S. companies have been under increasing internal and external pressure to take a stance on social and political issues, which may have also contributed to the trends we observe in the data.

7. 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 mechanisms behind the increasing political polarization of executive teams. We show the majority of the effect is driven by partisan executives increasingly segregating across states. In other words, executive teams in Texas and Ohio are becoming more Republican, whereas executive teams in California and New York are becoming more Democratic. Although we observe similar patterns when we force executives to follow the same trends as 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. Moreover, 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, changes in the political composition of executive teams likely have profound effects on how firms are run. For example, we find that Democratic and Republican executives differ fundamentally in their optimism about the future of the *same* company depending on which party is in control of the White House. Executive optimism, in turn, has been linked to important firm decisions, such as corporate investment and financing (e.g., Malmendier and Tate, 2005). Second, the large, negative stock price reaction to the departures of misaligned executives suggest that these departures may not necessarily be in the financial interest of shareholders. Shareholders of public U.S. firms may thus have good reasons to be concerned about the trend toward greater partisanship. Shareholder proposals and discussions about ideological diversity, such as the one at Apple's annual shareholder meeting in 2019 (Sherr, 2019) and recent activism at Salesforce (Wall Street Journal, 2023), may 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.[16] 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.

8. 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 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 potential implications of executives' matching on political affiliation for firm value. Stock price reactions to executive departures are substantially more negative for executives who are misaligned with the political views of the team's majority, than for executives who are aligned with the majority. Hence, some aspects of the rising polarization among U.S. executives may have negative consequences for shareholders.

The results in this paper raise many important questions that provide fruitful avenues for future research. First, it is important to understand how the political diversity of the executive

[16] 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.

team affects corporate decisions, such as hiring, investment, and financing policies, as well as corporate innovation decisions. Second, while our paper focuses on the top-earning executives in publicly listed U.S. firms, it remains an open question whether other parts of the workforce and employees in privately held companies exhibit trends similar to those of the executives we study. Third, given the importance of the workplace in providing interactions across partisan lines, understanding the potential feedback effects between political polarization of the workplace and political polarization of society 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.

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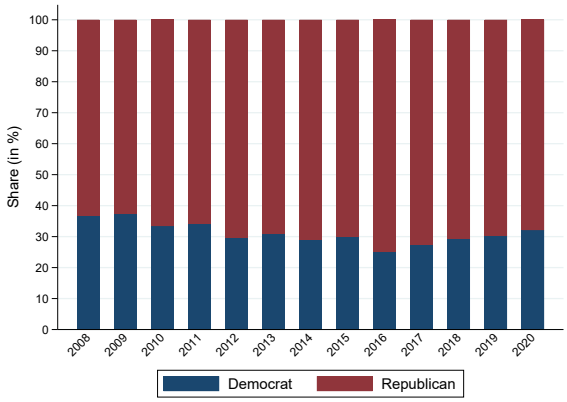
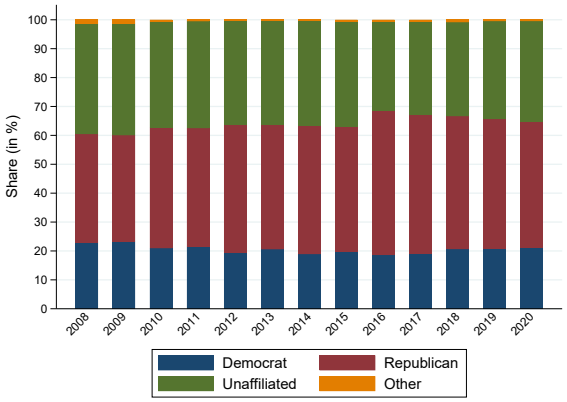
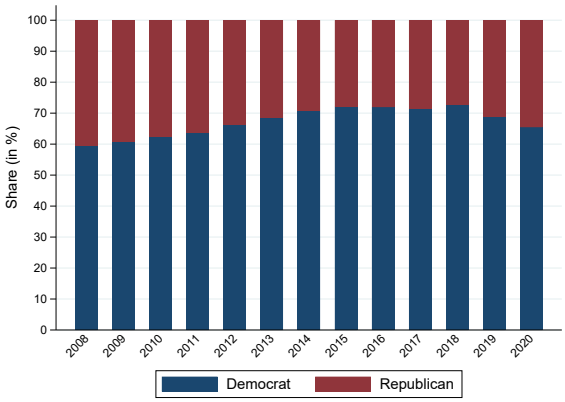


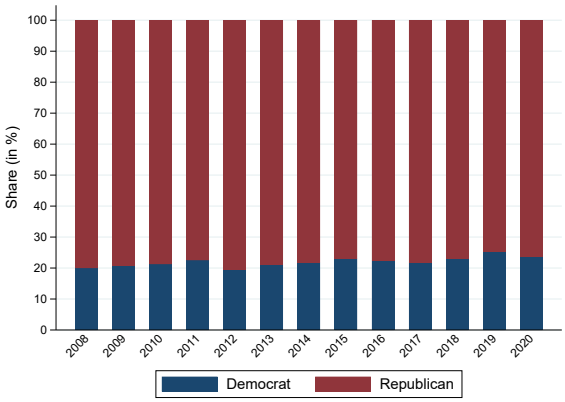
(A) Share of Dem./Rep. Executives



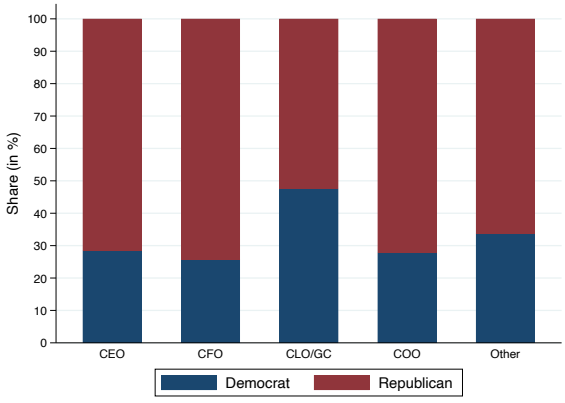
(B) Share of Dem./Rep./Unaff. Executives



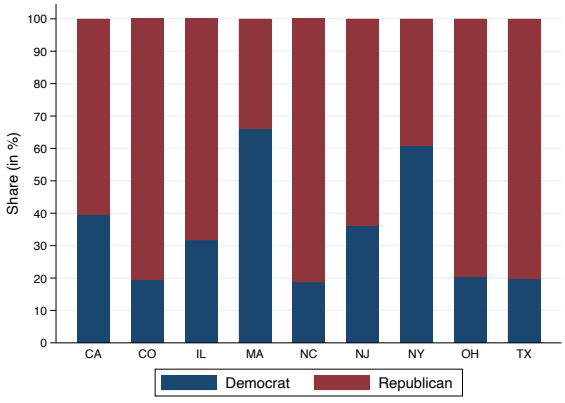
(C) Contributions by Registered Democrats



(D) Contributions by Registered Republicans



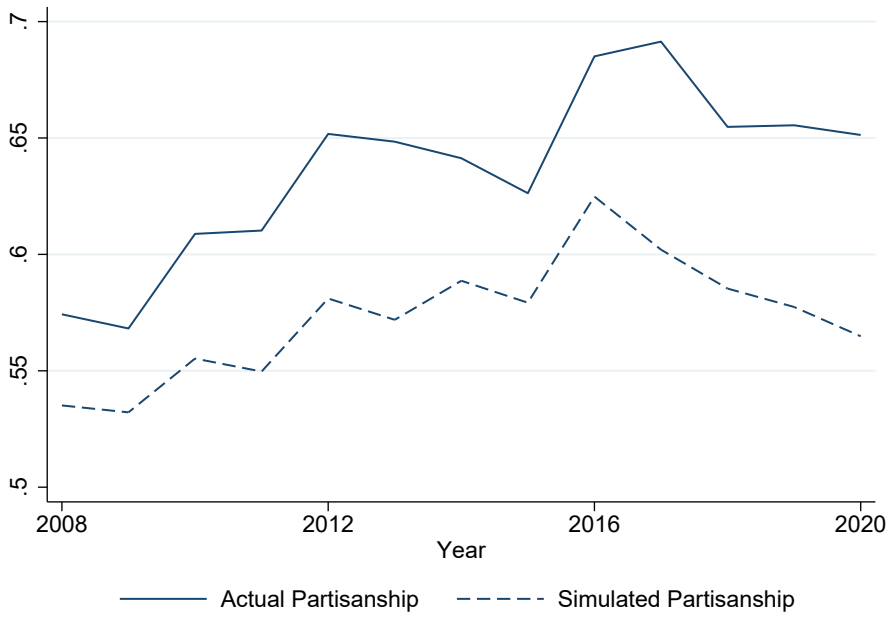
(E) Share of Dem./Rep. Executives by Role



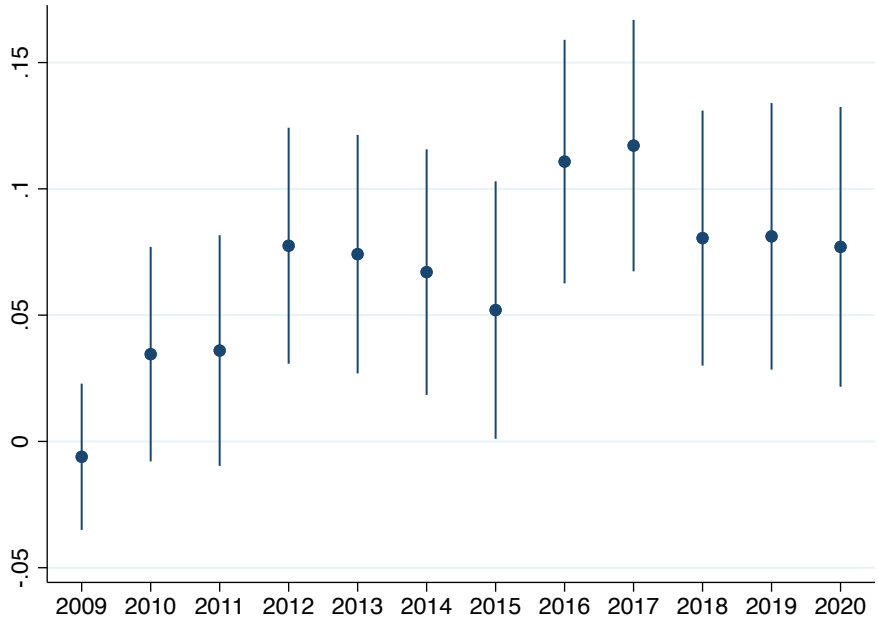
(F) Share of Dem./Rep. Executives by State

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 use the cumulative contributions made by the executive to the Democratic and Republican Party up until a given year to assign party affiliations. Panels E and F report the share of Democratic and Republican executives by executive role and by state of the company's headquarters, respectively.



(A) Actual vs. Simulated Partisanship



(B) Partisanship Over Time

Figure 2: Partisanship Over Time

Panel A plots, for each calendar year, the average partisanship of executive teams in the data (solid line) and the average simulated partisanship of executive teams (dashed line) across 1,000 simulations that randomly assign each executive a political party, using the distribution of party affiliation across the sample of executives in a given calendar year as inputs. Panel B reports the coefficients from an OLS regression of a firm's executive team partisanship on calendar-year dummies.

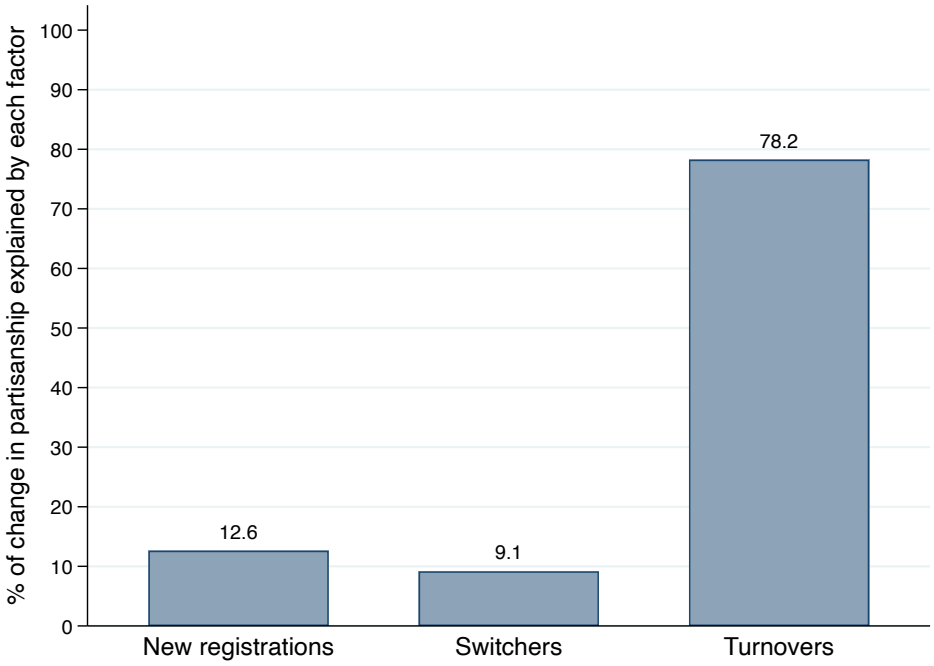


Figure 3: Increases in Partisanship Explained by Each Factor

The figure plots the average share of the within-firm increases in partisanship explained by each factor: (i) new registrations / executives voting for the first time; (ii) executives switching party, and (iii) executive turnovers.

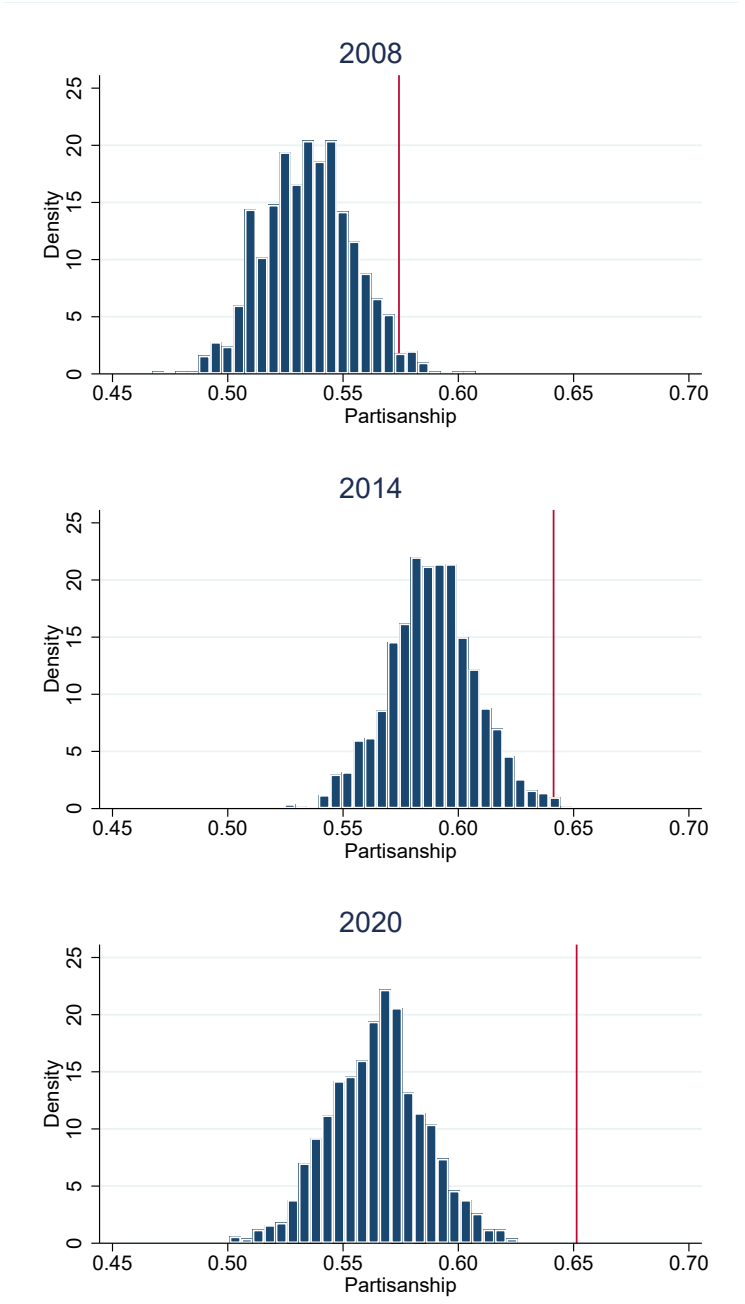
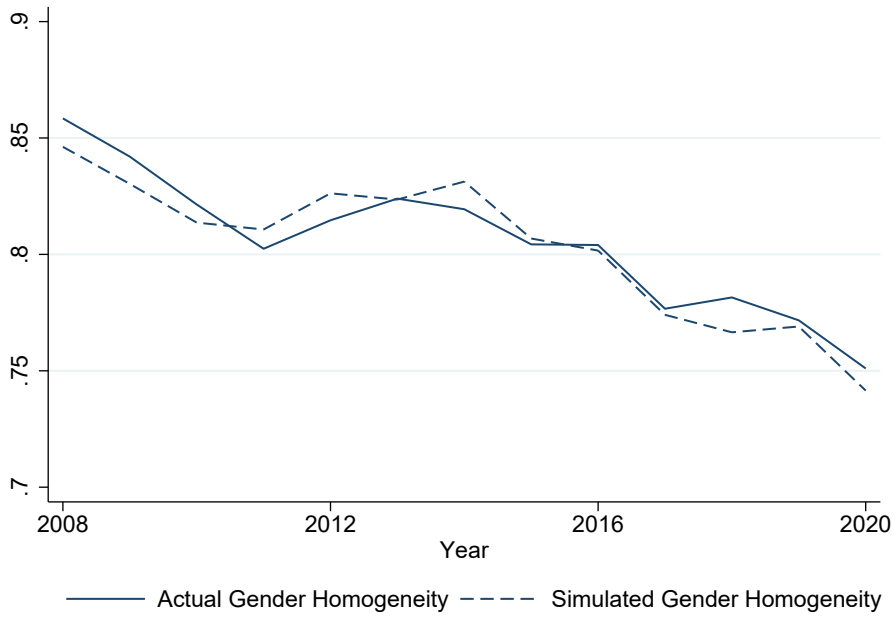
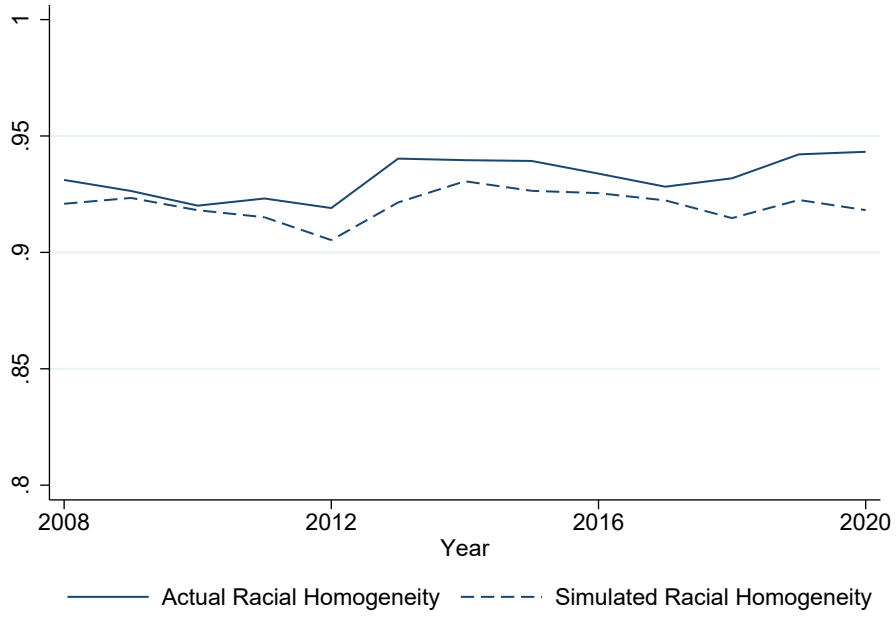


Figure 4: Partisanship: Actual vs. Simulation

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 5: Gender and Racial Homogeneity: Actual vs. Simulation

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.

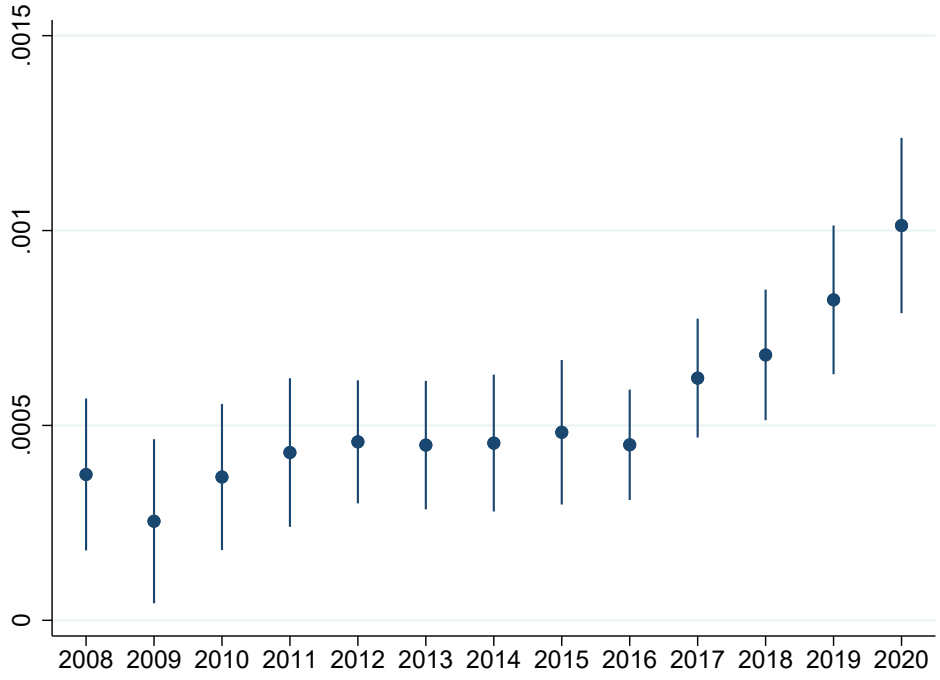
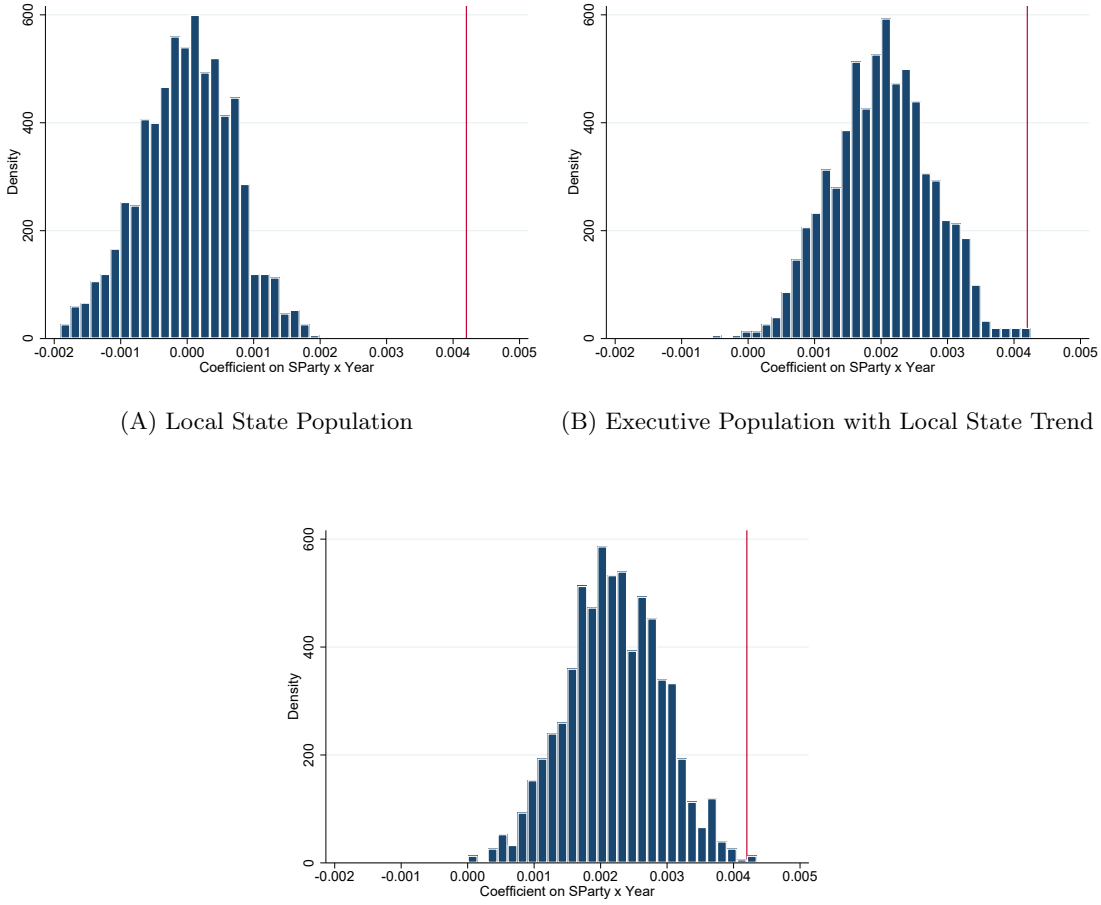


Figure 6: Dyadic Regression by Year

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.



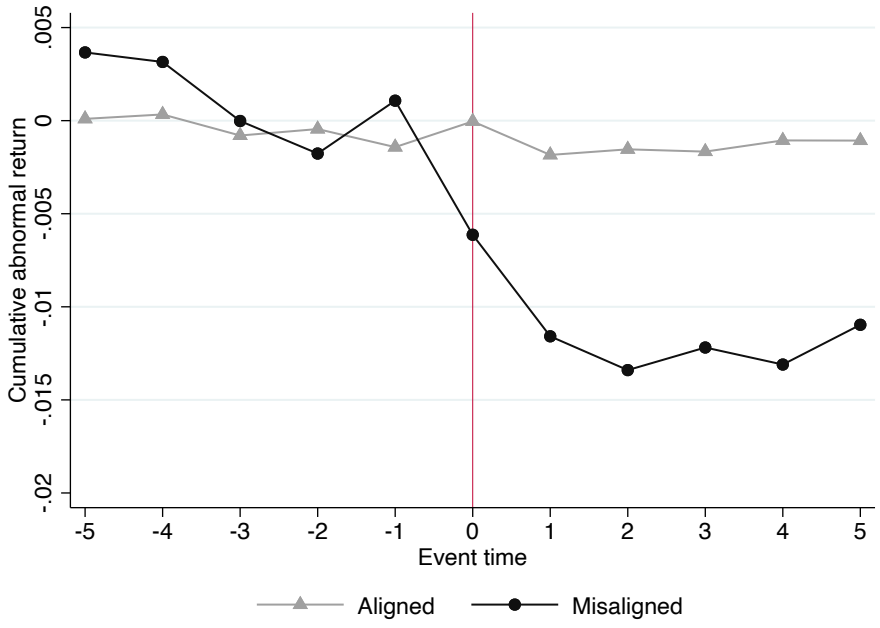
(A) Local State Population

(B) Executive Population with Local State Trend

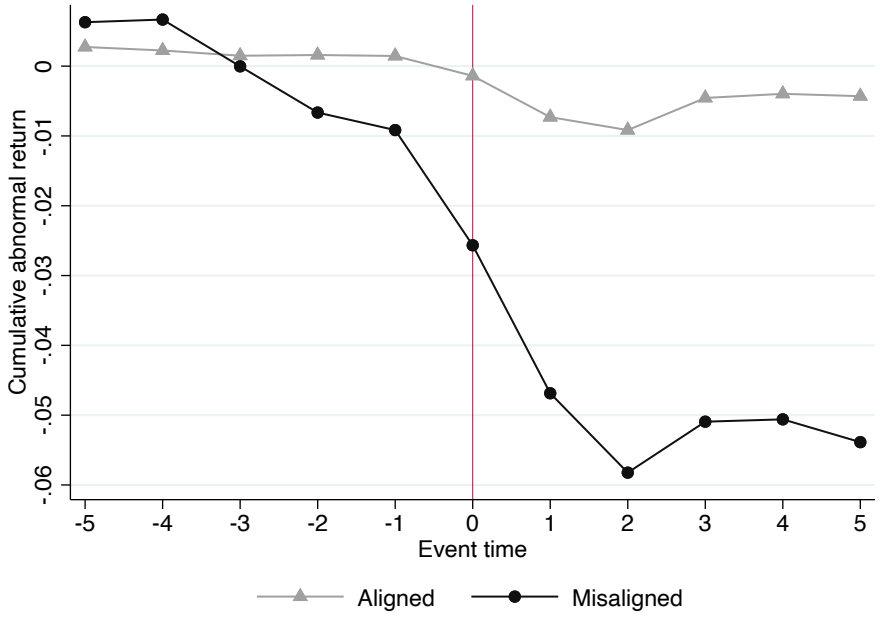
(C) Executive Population with Local MSA Trend

Figure 7: 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 3, column (4).



(A) All Departures



(B) Immediate Departures

Figure 8: Abnormal Returns around Announcements of Executive Departures

The figure plots cumulative abnormal returns over event days (–5,+5) 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-firm-year panel. Panel D reports statistics for our sample of executive departures. Panel E reports statistics for our insider-trading sample.

	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
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	3.501	1.149	3.000	3.000	4.000
Number of partisan executives	5,936	2.723	0.907	2.000	2.000	3.000
Panel B: Dyadic Sample						
SFirm (×100)	10,125,651	0.162	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
SRace	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-Firm-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
Age	14,541	54.159	7.442	49.000	54.000	59.000
Age>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)	922	-0.002	0.047	-0.014	-0.001	0.014
CAR(0,+2)	922	-0.002	0.053	-0.019	-0.001	0.015
Immediate departure	877	0.174	0.380	0.000	0.000	0.000
Forced CEO departure	88	0.239	0.429	0.000	0.000	0.000
Misaligned	922	0.139	0.346	0.000	0.000	0.000
Panel E: Insider-Trading Sample						
Insider sell	61,260	0.146	0.353	0.000	0.000	0.000
PartyWins	61,260	0.514	0.188	0.500	0.500	0.500
Unaffiliated	61,260	0.857	0.350	1.000	1.000	1.000
Election	61,260	0.143	0.350	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 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. *No. of partisans* refers to the number of partisan 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 the year-2020 dummy divided by the mean of the dependent variable. Standard errors, reported in parentheses, are clustered at the firm level.

	Partisanship		
	(1)	(2)	(3)
2009	-0.6075	-0.5078	-0.2752
	(1.4759)	(1.4850)	(1.5025)
2010	3.4551	3.5027	4.4271**
	(2.1627)	(2.1697)	(2.1864)
2011	3.5982	3.5670	4.3446*
	(2.3267)	(2.3402)	(2.3566)
2012	7.7479***	7.6747***	8.1945***
	(2.3805)	(2.3840)	(2.3993)
2013	7.4148***	7.3722***	7.4673***
	(2.4062)	(2.4194)	(2.4362)
2014	6.7039***	6.6499***	6.7916***
	(2.4771)	(2.4876)	(2.5136)
2015	5.2012**	5.1838**	5.3545**
	(2.5981)	(2.6068)	(2.6298)
2016	11.0797***	10.6835***	10.9592***
	(2.4569)	(2.4755)	(2.4987)
2017	11.7132***	11.4896***	12.2714***
	(2.5367)	(2.5477)	(2.5879)
2018	8.0509***	7.7226***	8.7029***
	(2.5719)	(2.5836)	(2.6157)
2019	8.1191***	7.9022***	8.6857***
	(2.6885)	(2.6908)	(2.7351)
2020	7.7034***	7.4954***	7.6079***
	(2.8216)	(2.8228)	(2.8820)
N	5,936	5,936	5,763
R^2	0.008	0.011	0.020
Economic effect (in %)	12.08	11.75	11.95
Controls:			
No. of partisans	No	Yes	Yes
Homogeneity Controls	No	No	Yes

Table 3: Dyadic Regressions

This table reports results from dyadic regressions. 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, as defined in Appendix A.1. Columns (1) and (2) report estimates of the dyadic regression in equation (2). Columns (3) and (4) report estimates for equation (3), which interacts *SParty* with a time-trend variable *Year*, defined as the calendar year minus 2008. The sample is restricted to Republican and Democratic executives. The unit of observation is the executive-pair × year. In columns (1) and (2) ((3) and (4)), the economic effect is calculated as the coefficient on *SParty* (*SParty* × *Year* × 12) divided by the mean of the dependent variable, respectively. Standard errors, reported in parentheses, are clustered at the executive-pair level.

	Same Firm			
	(1)	(2)	(3)	(4)
SParty	0.0540***	0.0520***	0.0264***	0.0261***
	(0.0041)	(0.0041)	(0.0074)	(0.0074)
SParty × Year			0.0045***	0.0042***
			(0.0010)	(0.0010)
SGender		-0.0052		-0.0054
		(0.0054)		(0.0054)
SRace		0.0491***		0.0487***
		(0.0047)		(0.0047)
SAge		0.0269***		0.0267***
		(0.0046)		(0.0046)
Constant	0.1302***	0.0864***	0.1298***	0.0865***
	(0.0029)	(0.0063)	(0.0029)	(0.0063)
N	10,125,651	10,125,651	10,125,651	10,125,651
Economic Effect (in %)	33.4	32.2	33.6	31.5
Fixed Effects:				
Year FE	No	Yes	No	Yes

Table 4: Dyadic Regression: Extensions

The table repeats the analysis presented in Table 3, columns (2) and (4), with some modifications. Columns (1) and (2) restrict the set of executive pairs to executives who work in the same GICS sector. Columns (3) and (4) restrict the set of executive pairs to executives who work for companies headquartered in the same state. The sample is restricted to Republican and Democratic executives. The unit of observation is the executive-pair × year. The economic effect is calculated as the coefficient on $SParty$ ($SParty \times Year \times 12$) divided by the mean of the dependent variable, respectively. Standard errors, reported in parentheses, are clustered at the executive-pair level.

	Same Firm			
	(1)	(2)	(3)	(4)
SParty	0.3845***	0.2597***	0.1613***	0.1852***
	(0.0368)	(0.0636)	(0.0255)	(0.0442)
SParty × Year		0.0208**		-0.0040
		(0.0085)		(0.0059)
SGender	-0.0880*	-0.0891*	-0.0302	-0.0299
	(0.0483)	(0.0484)	(0.0325)	(0.0325)
SRace	0.4550***	0.4538***	0.3752***	0.3755***
	(0.0409)	(0.0409)	(0.0269)	(0.0269)
SAge	0.2037***	0.2032***	0.1709***	0.1710***
	(0.0400)	(0.0400)	(0.0275)	(0.0275)
N	1,141,810	1,141,810	1,675,430	1,675,430
Economic Effect (in %)	26.8	17.4	16.5	-4.9
Fixed Effects and Restrictions:				
Year FE	Yes	Yes	Yes	Yes
Same Industry	Yes	Yes	No	No
Same State	No	No	Yes	Yes

Table 5: Executive Departures

This table reports the relation between the likelihood of an executive leaving the company and her political alignment with the majority of the team, by estimating equation (5). 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 as of the previous year-end, and zero otherwise. Control variables are defined in Appendix A.1. 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 × firm × year. Standard errors, reported in parentheses, are clustered at the firm level.

	Executive Departure					
	Full Sample		2008–2014		2015–2019	
	(1)	(2)	(3)	(4)	(5)	(6)
Misaligned	0.0264**	0.0323**	0.0126	0.0214	0.0585**	0.0531*
	(0.0110)	(0.0136)	(0.0129)	(0.0151)	(0.0242)	(0.0287)
CEO	-0.0773***	-0.0738***	-0.0829***	-0.0746***	-0.0746***	-0.0704***
	(0.0089)	(0.0094)	(0.0119)	(0.0123)	(0.0140)	(0.0138)
Tenure	0.0091***	0.0027	0.0114***	0.0077**	0.0053	-0.0005
	(0.0023)	(0.0026)	(0.0035)	(0.0039)	(0.0037)	(0.0038)
Tenure^2	-0.0004***	-0.0001	-0.0005**	-0.0004*	-0.0002	-0.0000
	(0.0001)	(0.0001)	(0.0002)	(0.0002)	(0.0002)	(0.0002)
White	-0.0111	-0.0062	0.0089	0.0184	-0.0352	-0.0340
	(0.0157)	(0.0153)	(0.0230)	(0.0214)	(0.0252)	(0.0248)
Age	0.3737***	0.3585***	0.3371***	0.3135***	0.4543***	0.4264***
	(0.0391)	(0.0405)	(0.0521)	(0.0517)	(0.0640)	(0.0603)
Age > 65	0.0475**	0.0472**	0.0302	0.0234	0.0549*	0.0661**
	(0.0218)	(0.0222)	(0.0311)	(0.0311)	(0.0330)	(0.0331)
Female	0.0174	0.0087	0.0162	0.0112	0.0102	0.0052
	(0.0155)	(0.0152)	(0.0211)	(0.0207)	(0.0233)	(0.0218)
Majority Democrat	-0.0084		0.0107		0.0109	
	(0.0177)		(0.0194)		(0.0582)	
N	10,046	9,789	5,588	5,459	4,432	4,330
R^2	0.145	0.436	0.170	0.419	0.212	0.452
Fixed Effects:						
Firm FE	Yes	No	Yes	No	Yes	No
Year FE	Yes	No	Yes	No	Yes	No
Firm × Year FE	No	Yes	No	Yes	No	Yes
Political Affiliation FE	Yes	Yes	Yes	Yes	Yes	Yes

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Table 6: Stock Price Reaction to Executive Departures

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 $t = -50$. Panel B regresses an indicator for forced CEO departures on misalignment. In both panels, executive controls include the same executive characteristics as in Table 5. In Panel A, lagged firm controls include the number of matched executives, the logarithm of the firm's total book assets, leverage, cash holdings, cash flow, investment rate, Tobin's Q, and revenue growth, as well as concurrent earnings surprise. All variables are defined in Appendix A.1. The unit of observation is the executive departure. Standard errors are clustered at the firm level.

Panel A: Abnormal Stock Returns

	Cumulative Abnormal Return					
	(0,+1)			(0,+2)		
	(1)	(2)	(3)	(4)	(5)	(6)
Misaligned	-0.0146**	-0.0149**	-0.0134*	-0.0169**	-0.0168**	-0.0160*
	(0.0070)	(0.0072)	(0.0074)	(0.0081)	(0.0082)	(0.0083)
N	922	922	837	922	922	837
R^2	0.025	0.032	0.067	0.023	0.028	0.067
Fixed Effects and Controls:						
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Political Affiliation FE	Yes	Yes	Yes	Yes	Yes	Yes
Executive Controls	No	Yes	Yes	No	Yes	Yes
Firm Controls	No	No	Yes	No	No	Yes

Panel B: Forced CEO Departure

	Forced CEO Departures	
	(1)	(2)
Misaligned	0.2615*	0.2330*
	(0.1479)	(0.1332)
N	88	88
R^2	0.047	0.166
Fixed Effects and Controls:		
Year	No	Yes
Political Affiliation FE	No	Yes
Executive Controls	No	Yes

Table 7: Executive Insider Trading around Presidential Elections

This table reports the relation between the likelihood of an executive selling company stock and the executive's political affiliation by estimating equation (6) using data from three months prior to three months following the 2016 and 2020 presidential elections. *Election* is an indicator equal to one during the election month (November), and zero otherwise. *PartyWins* equals one if insider i is a registered Republican, and zero otherwise, in the 2016 election; it equals to one if insider i is a registered Democrat, and zero otherwise, in the 2020 election, and it equals 0.5 for unaffiliated executives and insiders who cannot be linked to a voter registration record. *Unaffiliated* is an indicator equal to one for unaffiliated executives and insiders who cannot be linked to a voter registration record, and zero for partisan insiders. The unit of observation is the executive-firm-month. Standard errors, reported in parentheses, are double-clustered by executive and firm.

	Insider Sell		
	(1)	(2)	(3)
Election × PartyWins	-0.0609**	-0.0601**	-0.0551**
	(0.0257)	(0.0263)	(0.0261)
Election × Unaffiliated		0.0025	0.0042
		(0.0155)	(0.0155)
PartyWins	-0.0050	-0.0051	
	(0.0147)	(0.0147)	
N	54,058	54,058	54,443
R^2	0.480	0.480	0.628
Fixed Effects:			
Firm × Month FE	Yes	Yes	Yes
Political Affiliation FE	Yes	Yes	Yes
Executive × Election FE	No	No	Yes

Table 8: Executive Insider Trading and Executive Departures

This table reports the relation between the likelihood of aligned or misaligned executives leaving the firm and the partisan gap in executives' insider trading during the most recent presidential election. *No. of partisans* refers to the number of Democratic and Republican executives in the team. *Share of misaligned executives* is the share of misaligned executives among the partisan executives. Executive controls are the same as in Table 5. Lagged firm controls include log of book assets, leverage, cash holdings, investment, Tobin's Q, and sales growth. The unit of observation is the firm-year. Standard errors, reported in parentheses, are clustered by firm. The p-value from an F-test that assesses the statistical significance of the difference in the coefficients on *Partisan Trading Gap* across the two columns is reported at the bottom of the table.

	Misaligned Departure	Aligned Departure
	(1)	(2)
Partisan trading gap	0.1416	-0.2011*
	(0.1185)	(0.1210)
No. of partisans	0.0501***	0.2059***
	(0.0088)	(0.0122)
Share of misaligned executives	0.4111***	-0.4175***
	(0.0372)	(0.0318)
Partisan trading gap missing	0.0049	-0.0301
	(0.0420)	(0.0531)
N	3,401	3,401
Fixed Effects and Controls:		
Year FE	Yes	Yes
Firm FE	Yes	Yes
Firm Controls	Yes	Yes
Executive Controls	Yes	Yes
p-value	0.042	

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.
SFirm	An indicator equal to one if two 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 $(0,+\tau)$	Cumulative abnormal return, measured over trading days 0 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).
Insider sell	An indicator equal to one if the insider sells company stock in a given calendar month, and zero otherwise.
Key independent variables	
SParty	An indicator equal to one if both executives have the same political party affiliation, and zero otherwise. Party affiliations are obtained from voter registration records.
Year	Calendar year minus 2008.
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.
PartyWins	An indicator equal to one if the political affiliation of the executive matches that of the newly elected U.S. President, and zero otherwise. If an insider is unaffiliated or cannot be matched to a voter record, the variable is set to 0.5.
Partisan trading gap	Absolute difference in the average propensity to sell company stock between Republican and Democratic executives during the most recent party-switching presidential election. The variable is set to zero when missing.
Control variables	
No. of partisans	The number of executives in the team who are matched to a voter registration record and are identified as either Democrat or Republican.

Continued on next page

Table A.1 – continued

Variable	Description
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.
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.
Log assets	Logarithm of total book assets. Obtained from Compustat Annual.
Tobin's Q	Ratio of the market to the book value of assets. Obtained from Compustat Annual.
Leverage	Ratio of long-term liabilities to the total book value of assets. Obtained from Compustat Annual.
Cash holdings	Cash plus receivables, normalized by total book assets. Obtained from Compustat Annual.
Cash flow	Earnings before extraordinary items plus depreciation, normalized by lagged total assets. Obtained from Compustat Annual.
Investment rate	Capital expenditures, normalized by lagged property, plant & equipment. Obtained from Compustat Annual.
Sales growth	Annual growth in total revenue. Obtained from Compustat Annual.
Earnings surprise	Earnings surprises are computed as the difference between the actual earnings per share (EPS) and the median EPS forecast from IBES, scaled by the median forecast. We then sort the earnings surprise into 11 bins, following DellaVigna and Pollet (2009). Negative earning surprises are in Quantiles 1 through 5, followed by days with zero surprises or no earnings surprise (Quantile 6), and positive surprises (Quantiles 7 though 11). The thresholds for the bins are set separately for each calendar quarter across all earnings surprises in IBES.