The Political Polarization of U.S. Firms[☆]

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Abstract

Executive teams in U.S. firms are becoming increasingly politically polarized. We establish this new fact using political affiliations from voter registration records for top executives of S&P 1500 firms between 2008 and 2018. The rise in political homogeneity is explained by both a rising share of Republican executives and increased sorting by partisan executives into firms with like-minded individuals. We further document substantial heterogeneity across party lines in executives' beliefs, as proxied by their trading of company stock around presidential elections, as well as in firms' investment decisions.

1. Introduction

A growing literature documents a large increase in polarization across political parties in the U.S. (e.g., Iyengar, Sood, and Lelkes (2012); Mason (2013); Lott and Hassett (2014); Mason (2015); Gentzkow (2016); Boxell, Gentzkow, and Shapiro (2017)). Pew Research Center (2017) shows that party identification is now a more significant predictor of Americans' fundamental political values than any other social or demographic divide. Moreover, whereas differences in social attitudes across individuals of different gender or race have remained relatively stable since the 1970s, the gap between Republicans and Democrats has increased substantially (Bertrand and Kamenica (2018)). Another clear symptom of the increased political polarization is the increasing political homophily of social groups, as individuals prefer to socialize and form relationships and friendships with politically like-minded individuals (Iyengar, Sood, and Lelkes, 2012). The workplace is considered one of the few remaining settings where individuals still regularly interact with others who do not necessarily share their own political views (Mutz and Mondak (2006); Hertel-Fernandez (2020)). In fact, Mutz and Mondak (2006) show that the workplace is much more likely to expose individuals to people of dissimilar perspectives than other contexts such as the family, the neighborhood, or voluntary associations. Yet, we have a limited understanding of how much political polarization exists in the workplace, especially among high-level decision makers, and how it has changed over time.[1]

To offer new insights on polarization in the workplace, we focus on important decision makers in the firm: executive teams. Our study is motivated by the emerging evidence that partisanship influences economic decisions not only by households but also by economically sophisticated agents in high-stakes environments (Kempf and Tsoutsoura (2020); Dagostino, Gao, and Ma (2020); Gormley, Kaviani, and Maleki (2020)). Corporate executives are responsible for designing and executing the most important corporate decisions. Therefore, if political polarization leads to more politically homogeneous executive teams, it likely also affects key corporate policies such as investment and financing choices. Moreover, corporate executives have substantial influence on shaping the firm's managerial ranks via promotion and hiring decisions. If

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

increasingly homogeneous political views among corporate executives lead to biased promotions and hiring, this can lead to inefficient firm-worker matching or reduce incentives for employees to invest in firm-specific human capital.

Combining Execucomp data on top executives in U.S. S&P 1500 firms with voter registration records, we document a strong increase in the political polarization of executive teams between 2008 and 2018. Following Easterly and Levine (1997) and Alesina, Devleeschauwer, Easterly, Kurlat, and Wacziarg (2003), we measure polarization as the probability that two randomly drawn executives are affiliated with the same political party.[2] As Figure 4 shows, based on this measure we find a five-percentage-point increase in the political polarization of executive teams over our sample period. The years with the highest year-on-year increases are 2010, 2012, and 2016; i.e., around presidential elections and the passage of the controversial Affordable Care Act ("Obamacare"). The increase in the political homogeneity of executive teams is even more remarkable in light of the decreasing homogeneity along the gender and race dimensions, which should, if anything, lead to greater diversity in political views.

[Insert Figure 4 here]

What drives the increase in the political polarization of executive teams? One possibility is that the increase in polarization is a reflection of changes in the share of Republicans and Democrats in the overall population of executives. Alternatively, the increase in political polarization could result from an increased tendency of executives to sort into firms with like-minded individuals. We document that 70% of the increase in polarization is driven by an increased tendency of executives to sort into firms with individuals who share their political party. This result highlights the importance of sorting based on political ideology.

Further supporting the role of political views in executive team formation, we document evidence consistent with political views affecting executives' departure decisions. Specifically, within each firm-year, we compare executives whose political views match those of the team's majority and executives whose political views do not match the team's majority. We find that executives who are politically aligned with the rest of the team have a 2.5 percentage points lower

[2]Throughout this paper, we will use the terms political polarization and political homogeneity interchangeably. In both cases, we are referring to the likelihood that two randomly drawn executives from the same firm share the same political party.

probability of leaving the firm relative to other executives, corresponding to an 18.9% decrease in the likelihood of departure relative to the unconditional turnover probability of 13.2% over our sample period. This result holds after the inclusion of firm × year fixed effects, i.e., we can control for any drivers of executives' departure decisions related to firm fundamentals. Interestingly, we find again a strong increase in the effect over time: whereas during the period 2008–2014 the effect is relatively small and statistically insignificant, it becomes highly economically and statistically significant during the later part of our sample period (2015–2017).

Next, we establish that differences in executives' political views manifest in differences in beliefs about the company's future stock price performance. Prior research has shown that individuals' assessments and interpretations of economic conditions depends on the party they support (e.g., Bartels (2002); Gaines, Kuklinski, Quirk, Peyton, and Verkuilen (2007); Gerber and Huber (2009); Curtin (2016); Mian, Sufi, and Khoshkhou (2018); Kempf and Tsoutsoura (2020)). To test whether this prediction holds also for corporate executives, we examine their insider trading decisions. Importantly, by comparing insider trading decisions made by executives who belong to the same executive team but have different political affiliations, we can measure differences in beliefs that can be attributed to political views and do not reflect differences in information about the firm's prospects.

Using insider trading decisions around the November 2016 election, we show that after the election of the Republican president, Republican executives exhibit a significantly lower likelihood of a sale transaction relative to Democratic executives of the same firm. Specifically, the relative decrease in the likelihood of insider selling is about 14 percentage points, which is more than half of the unconditional likelihood of insider selling. A potential concern is that Republican executives could be overrepresented in firms that are going to benefit from the election outcome. To address this and similar concerns that time-varying firm characteristics might drive the estimates, we show that the results are robust when we include firm-year-month fixed effects.

We conclude the analysis by investigating whether political polarization of executive teams also affects real firm outcomes. Corporate executives are clearly in a position to affect the allocation of corporate resources. If differences in political views translate into differences in executives' beliefs about the firm's investment opportunities and future performance, as our results on insider trading indicate, then we would expect to see effects on firm investment. To

test this prediction, we compare the investment decisions of firms with varying degrees of political homogeneity. We consider three types of executive teams: executive teams with at least 40% Republican executives, executive teams with at least 40% Democrat executives, and politically balanced executive teams where neither Republican nor Democrat executives represent more that 40% of the team. We find that Republican and Democratic executive teams respond differently to changes in the political environment— specifically, the party of the president. These results imply that the recent trend in political polarization of executive teams has implications not only for the formation of executive teams, but also for the way in which firms' investment decisions respond to changes in the political environment.

Our paper contributes 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 (2018); Makridis (2019)) and portfolio allocation decisions (Addoum and Kumar (2016); Bonaparte, Kumar, and Page (2017); Meeuwis, Parker, Schoar, and Simester (2018)). 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 (2020)), loan officers (Dagostino, Gao, and Ma (2020)), and judges (Gormley, Kaviani, and Maleki (2020)). Moreover, Duchin, Farroukh, Harford, and Patel (2019) show that the political distance between firms affects firms' M&A decisions. Our paper contributes to this literature by providing novel evidence on the increase in political polarization of executive teams in the U.S. and by documenting direct real effects for firms.

We also contribute to the literature that studies the effects of diversity among firms' executive teams or boards of directors. Prior literature has examined the effect of demographic similarities (e.g., Westphal and Zajac (1995)) and gender diversity (e.g., Adams and Ferreira (2009); Ahern and Dittmar (2012); Nguyen, Locke, and Reddy (2015)). 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 that greater board diversity leads to lower volatility and better firm performance. A key difference between these papers and our paper is

that we focus on political diversity, which features much less prominently in the public debate about corporate boards. Yet, political affiliation seems to increasingly predict differences in social attitudes across individuals, as Bertrand and Kamenica (2018) show.

A paper that also focuses on political ideology is Lee, Lee, and Nagarajan (2014), who use political contributions data to measure political alignment between CEOs and board members. They find that alignment has an adverse effect on board independence, leading to managerial entrenchment and lower firm value. We add to this literature by documenting an increased political polarization of U.S. executive teams, differences in beliefs about future firm performance across executives with different political views from the same firm, and a divergence in investment decisions by polarised Democratic versus Republican executive teams to changes in the political environment.

2. Data Sources and Sample Description

2.1. Execucomp

We obtain information on the firm's top earning executives from the Execucomp database, maintained by Standard & Poor's. Execucomp covers all companies included in the S&P 1500 index. It uses compensation data from firms' annual proxy statements (form DEF 14A), in which firms are required to report compensation data for the five most highly-compensated executives. In addition to compensation information, Execucomp contains the full names of the executives, their age, and their role in the firm. The coverage starts in 1992, but we restrict the sample to years 2008 to 2018 because this is the period with the best coverage in the voter registration data used to infer party affiliation (see below). After restricting the sample to the above time period, our sample spans 26,308 executives in 2,476 firms.

We also use executives' first and last names to obtain additional demographic characteristics. For example, we infer executives' ethnicity from their first and last names, using the API name-prism.com (see Ye, Han, Hu, Coskun, Liu, Qin, and Skiena (2017) for details). Moreover, we infer gender from executives' first names, using the publicly available API genderize.io combined with manual online searches.[3]

[3]The API uses a large dataset of first names and known genders gathered from user profiles across major social networks in order to predict gender. See http://api.genderize.io/.

2.2. Political Affiliation

Our political-affiliation measure comes from voter registration records from California (Contra Costa, Marin, San Francisco, San Mateo, Santa Clara, Sonoma), Colorado, Illinois, Massachusetts (Boston, Cambridge), North Carolina, New Jersey, New York (New York City), Ohio, and Texas. We restrict our sample to these locations because the other states either do not share voter registration records or do not track voters' party affiliations over time.[4] The voter registration records contain identifying information, such as voter names, 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 the Internet Appendix we describe the information available in the voter registration records of each location in more detail.

For the purpose of our study, the voter registration data have important advantages relative to the more commonly used data on financial contributions to political parties, candidates, and committees, found on the Federal Election Committee (FEC) website.[5] First, voter registrations are more likely to reflect individuals' ideological preferences compared to political contributions, which could be made for other reasons. In fact, there is an ongoing debate among political scientists as to what extent political contributions reflect consumption or investment motives; i.e., to what extent individuals donate in order to derive a consumption benefit or in order 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 will show below (and has been shown by Cohen, Hazan, Tallarita, and Weiss (2019)), the number of contributions that cannot be linked to a political party has increased substantially in recent years. While this 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 (20% in our sample)

[4] 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.

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

contributes to both parties, making it difficult to infer a clear party preference. Finally, party registration has been shown to be a very good predictor of self-reported party identification. Igielnik, Keeter, Kennedy, and Spahn (2018) match commercial voter files, which are based on data from voter registration records, with a large-scale survey on political attitudes and voter behavior and show that, for more than two-thirds of the panelists, the party affiliation in the commercial voter file correctly infers the self-reported party identification. The accuracy is even higher for states with party registration, such as New York.

2.3. Insider trading data

Sections 16(b) and 10(b) of the Securities Exchange Act of 1934 serve as the base for regulating insider trading. 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 insider selling decisions, since most insider transactions involve selling 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.

2.4. 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 the CRSP files. 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.[6] When location data from historical filings is unavailable, we use address information from Compustat.

In order 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

[6]We thank Professor Bill McDonald for making this 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/.

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

2.5. Sample Construction

Out of the 26,308 executives from Execucomp, 14,809 (=56%) are located in one of the nine states for which we have historical voter registration data. In terms of their aggregate market capitalization, firms in these nine states represent 62% of all Execucomp firms.

Because we require information on political-party affiliation, we further restrict the sample to executives who can be matched to a unique voter registration record. In a first step, we merge executives to voters using first name, middle initial, and last name, keeping only exact matches. For executives who are matched to multiple voter records, we sequentially apply two additional filters in order to identify a unique match. The first filter removes any matches with an age gap larger than three years. The second filter 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 to 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 45% of executives to a unique voter. This match rate is comparable to previous studies using U.S. voter registration records (Kempf and Tsoutsoura (2020)). After removing unaffiliated executives and executives who are affiliated with parties other than the Democratic and Republican party, our final sample includes 4,162 executives working in 1,243 firms.

For our analysis of time trends in political polarization, we further restrict the sample to firms with at least two matched executives, reducing the sample to 945 unique firms. Figure 1 plots summary statistics for this sample. The number of unique firms is above 400 and the number of unique executives is above 1,000 in all calendar years. We match on average between 44% and 54% of the executives in these firms, which corresponds to approximately 2.6 to 2.8 executives for the average firm-year. In the Internet Appendix, we show the geographical distribution of firms and executives across the nine states. The majority of firms are located in California, followed

by Texas, Illinois, and New York.

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 that executives for whom we are able to obtain party affiliation run firms that have are somewhat larger than firms run by executives without a matching voter record. We do not find significant differences along a rich set of other observable firm characteristics, including leverage, cash flow, investment, Tobin's Q, and lagged 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.

2.6. Summary Statistics

Table 1 reports summary statistics for our sample. Panel A reports statistics for the firm-level variables, where the unit of observation is firm-year. The average share of Democratic and Republican executives is 35% and 65%, respectively, with a standard deviation of 34%. The average political homogeneity, measured as the probability that two randomly drawn executives belong to the same party, is equal to 77.3%. As a benchmark, if all firms had exactly a 50-50 share of Democrat and Republican executives, the average homogeneity measure would be 0.5 ($= 0.5^2 * 2$). We observe an even higher degree of homogeneity for gender and ethnicity: the average gender homogeneity, measured as the probability of two randomly drawn executives having the same gender, is 89.2% and the average ethnic homogeneity, measured as the probability of two randomly drawn executives having the same ethnicity, is 95.5%.

[Insert Table 1 here]

Panel B reports statistics for the executive departures sample. The unit of observation is executive-year. In our sample, the average likelihood of an executive's departure is 13.2%. The average tenure in the current position is 5 years, and almost 65% of executives are older than 65 years. 95.2% of executives are white and 9.5% are female executives.

Panel C reports statistics for our insider trading sample, with the unit of observation being insider-month. The sample is restricted to registered Republican, Democrat, or Unaffiliated executives and includes executives with unconditional likelihood of selling of at least 10% in a given month. The unconditional likelihood of selling is calculated based on the entire trading history of the executive. In this sample, the likelihood of an insider trade in a given month is 23%. Consistent with the literature, the vast majority of insider transactions are sell transactions: the likelihood of an insider sell is 22.2% and the likelihood of an insider buy is 0.8%.

Panel D reports statistics for the investment sample. The unit of observation is firm-year. The number of observations is higher than in panel A because we are including unaffiliated executives, thus resulting in a higher number of companies. In our sample, the average log capital expenditure is 4.1. For 52% of firm-years, Republicans make up more than 40% of their executives, while for 30% of firm-years, neither Republicans nor Democrats comprise 40% of their executives.

3. Aggregate Trends in the Political Affiliations of U.S. Executives

3.1. Trends in Political Affiliation

Figure 2 reports the shares of executives who are registered as Democrats and Republicans over time. The majority of executives are affiliated with the Republican party. Moreover, the share of Republican executives has increased from 58% in 2008 to 66% in 2018. In the Internet Appendix, we plot the time trend in the political affiliation of executives after adding unaffiliated executives. We continue to find an increasing share of Republicans, as well as a decrease in the share of unaffiliated executives. The latter is partly mechanical, because in some states we infer party affiliation from primary elections, and the cumulative likelihood of having voted in at least one primary election increases over time for each executive. In order to make sure that our results are not driven by changes in the fraction of unaffiliated voters, we restrict our main analysis to Democratic and Republican executives only and exclude unaffiliated voters.

The dominance of the Republican party among executives is consistent with Cohen, Hazan, Tallarita, and Weiss (2019), who find that the majority of CEOs in S&P 1500 companies donate primarily to the Republican party. What differs in the contributions data, however, is the time trend: while we observe an increase in the share of Republican executives between 2008 and

2018 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 report these graphs in the Internet Appendix.

In Figure 3, we also 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 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, executives who are registered Republicans do not. This suggests there is a trend towards more "open" Democrats among U.S. executives in recent years. The pattern is also consistent with recent evidence reported by Bonaparte (2020), who finds that contributions to the Democratic party by corporate executives have increased since the 1990s. In the Internet Appendix, we also repeat Figure 3 after adding executives who are classified as unaffiliated based on their historical contributions. We observe that Republican executives increasingly donate to committees that cannot be linked to a political party starting around 2016. This suggests there could be not only a trend towards more open Democrats, but also towards more "hidden" Republicans in recent years.

3.2. Trends in Political Polarization of Executive Teams

Next, we turn to time trends in the political polarization of executive teams. Following Easterly and Levine (1997) and Alesina, Devleeschauwer, Easterly, Kurlat, and Wacziarg (2003), we measure political homogeneity as the probability that two randomly drawn executives from the same firm have the same party affiliation (i.e., are either both Republicans or both Democrats):

$$Polar_{ft} = Share\,Dem_{ft}^2 + Share\,Rep_{ft}^2, \tag{1}$$

where $Share\,Dem_{ft}$ and $Share\,Rep_{ft}$ refer to the share of registered Democrats and Republicans among all executives in firm f in year t, respectively. In our robustness tests, we use two alternative measures of homogeneity; one is the absolute difference in the share of Democrat and Republican executives (i.e., $|Share\,Dem_{ft} - Share\,Rep_{ft}|$), and the other is an indicator equal to one if all matched executives in the firm share the same political party. As explained above, we restrict the sample to Republican and Democratic executives only; i.e., we exclude unaffiliated

executives and executives affiliated with other parties.

In Figure 4, we plot the average political polarization over time. We observe a sizable increase in the political homogeneity of executive teams. Between 2008 and 2018, the increase is equal to approximately five percentage points.[7] The year-on-year increase in the average polarization is highest in 2010, 2012, and 2016. This suggests that recent presidential elections as well as controversial reforms (e.g., Obamacare in 2010) may have contributed to the increase in political homogeneity over the past decade.

[Insert Figure 4 here]

In Table 2, we show that the positive time trend in Figure 4 is statistically significant. We regress the polarization measure for each firm-year on calendar year as well as on other controls and fixed effects. Standard errors are clustered at the firm level. Given that our sample period spans 10 years, the coefficient of 0.494 in column (1) indicates that polarization has increased by 4.94 (=0.494×10) percentage points between 2008 and 2018. Relative to the average polarization of 77%, this is an economically sizable increase. Our estimate of the slope coefficient remains stable when we control for the number of matched executives, other dimensions of diversity of the executive team (gender, ethnicity, and age), or firm fixed effects. Our preferred specification in column (5) indicates an increase in polarization of 0.510 percentage points annually.

[Insert Table 2 here]

We perform a series of additional tests in the Internet Appendix to verify the robustness of the observed increase in political polarization and to better understand its drivers. First, we obtain an even larger positive slope coefficient if we include unaffiliated executives. This is expected, because we have already documented that the share of unaffiliated executives decreases over time, which increases polarization. Second, we show that the increase in political polarization also holds if we add party affiliation from states which only provide the most recent party affiliation for each voter and do not track party affiliations over time. This adds firms located in Arkansas, Connecticut, Florida, Kansas, Nevada, Oregon, Oklahoma, Rhode Island and West Virginia, as

[7] In the Internet Appendix we show that the positive trend in political homogeneity of executive teams is robust to including unaffiliated and other executives in the analysis.

well as parts of California and New York not covered by our county and city-level data, thereby increasing the number of unique firms in our sample from 945 to 1,469. Third, we assess how much of the increase in polarization is coming from within-person changes in party affiliation. We repeat the analysis in Table 2 after removing any time variation in executives' political affiliation by carrying forward the very first party affiliation we observe for each executive. The resulting estimates imply that 36.5% (=1-0.324/0.510) of the increase in polarization can be explained by within-person party changes. In other words, the majority of the effect is driven by changes in the composition of executive teams. We explore this feature of the data in more detail in Section 3.3. Finally, we also show that we obtain very similar results if we use two alternative measures of polarization.

We further assess the robustness of our result reported in column (5) of Table 2 by sequentially removing each GICS sector as well as each of the nine states. The results, reported in the Internet Appendix, show that our main result is robust to dropping any single GICS sector and any state. The estimate of our slope coefficient becomes smaller if we drop Ohio or Texas, indicating that the increase in polarization is stronger in those two states, whereas it becomes larger if we drop firms in California.

Next, we investigate to what extent the increase in political polarization is driven by the increase in the share of Republicans in the overall population of executives (as shown in Figure 2) or by an increased tendency of executives to sort into firms with like-minded individuals. In order to differentiate between these two possibilities, we perform a simulation exercise, in which we randomly assign each executive in our sample a political party affiliation, using the share of Democratic and Republican executives in the overall population of executives in a given year. For each firm-year, we then simulate 1,000 hypothetical polarization measures assuming random sorting of executives into firms. The results from the simulation are shown in Figure 5.

[Insert Figure 5 here]

The blue bars show the average political polarization across all firms for each of the 1,000 simulated datasets, and the red line shows the actual average polarization in our dataset for the years 2008, 2013, and 2018. We observe that the blue distribution shifts to the right between 2008 and 2013. This is a mere reflection of the increase in the share of Republican executives. Im-

portantly, across all panels, we can reject the hypothesis that executives sort into firms randomly at the 1% level, because the actual polarization in our dataset exceeds the 99th percentile of polarization in the simulated sample. When we compare the results across panels, we observe an increasing tendency of executives to sort into firms with like-minded individuals, as can be seen from the fact that the red line moves further and further away from the blue distribution. Figure 6, Panel A, provides an alternative visualization of this trend. It plots both the average political homogeneity in the data (solid line) as well as the average simulated homogeneity (dashed line) for each year. Over time, the distance between the two lines grows, consistent with the red line moving further away from the mean of the blue distribution in Figure 5.

[Insert Figure 6 here]

Further illustrating the trend towards more politically polarized teams, in the Internet Appendix we document an increased prevalence of both firms with 100% Republican executives as well as firms with 0% Republican executives relative to the simulated distribution. Similarly, we also observe an increased prevalence of all-Democrat and zero-Democrat firms relative to the simulations.

We next assess whether the increase in executives' tendency to sort into firms with individuals who share their ideology is statistically significant. Specifically, we test whether the distance between the solid line and the dashed line in Figure 6, Panel A, grows significantly larger over time. For each firm-year in our sample, we compute the difference between the firm's actual polarization and the average polarization across the 1,000 simulations and then regress this difference on calendar year dummies. Figure 6, Panel B, plots the coefficients and corresponding 95% confidence intervals for each of the calendar-year dummies, with the reference year being 2008.

[Insert Figure 6 here]

We find that the tendency of executives to sort into firms with ideologically like-minded individuals is approximately 4.0 percentage points higher in 2018 than it was in 2008. Hence, the increased sorting of executives into firms with like-minded individuals can explain ca. 80% (=4.0/5.0), and thus a substantial share, of the observed increase in political polarization between 2008 and 2018.

In the Internet Appendix, we repeat Figure 5, after modifying the simulation to use the share of Republican and Democratic executives in the firm's industry or state, respectively, rather than in the overall population of executives. Using industry- or state-specific distributions of political affiliations in the simulation substantially reduces the observed increase in sorting by executives. Hence, a large part of the effect is driven by executives increasingly sorting into industries and, in particular, states with individuals who share their ideology.

3.2.1. Homogeneity in Other Executive Characteristics

The increase in political homogeneity stands in stark contrast to trends in homogeneity 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 ethnicity. We then repeat the analysis from Table 2, Panel A, using homogeneity in gender and ethnicity. Although we see a high *level* of homogeneity in gender and ethnicity, the sign of the trend is negative, as can be seen from the significant negative coefficient on calendar year. Thus, whereas executive teams become less homogeneous as far as gender and race are concerned, we observe an increasing homogeneity of political views. Since women and minorities are more likely to be Democrats, controlling for diversity along the gender and race dimension tends to further increase our estimate of the increase in political homogeneity in Table 2, Panel A.

Finally, we also repeat the simulation exercise for homogeneity along the gender and race dimension. The results are reported in Figure 7. There is no evidence of increased sorting of male and female executives in Panel A. For ethnicity, we do find some evidence of increased sorting between 2008 and 2014, but it is economically small and shrinks again after 2014.

[Insert Figure 7 here]

3.3. Executive Departures

Our results so far indicate that over time executive teams become more politically polarized and executives sort into firms by their political views. To further support the role of political views in executive team formation, we next investigate whether political views affect executives' departure decisions. Prior literature has shown that an organization's policies affect new members

joining and dissatisfied members leaving (e.g., Gieczewski (2020)). Thus, the political views of an executive team could drive departure decisions of corporate executives.

To investigate this possibility, we test whether executives that have different political views than those of the majority of the team are more likely to depart from the firm. We estimate the following regression:

$$Executive\,Departure_{ift} \quad = \quad \alpha_{ft} + \alpha_p + \beta Match\,majority_{ift} + \delta' X_{ift} + \varepsilon_{ift},$$

where f, i, and t index firms, individuals, and years, respectively. p denotes the executive's political affiliation (Democrat, Republican, or unaffiliated). $Executive\,Departure$ takes the value one in the year the executive departs from the firm, and zero otherwise. $Match\,majority$ is a dummy variable that takes the value one if the political affiliation of the executive matches the political affiliation of the majority of the team members, and zero otherwise. If there is no clear majority of Democrats or Republicans in the team, then $Match\,majority$ is set equal to zero. Vector X_{ift} captures time-invariant and time-varying individual-level control variables. α_{ft} are firm $\times$ year fixed effects and absorb both time-invariant as well as time-varying firm characteristics, implying that 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 the same political affiliation as the team majority and those who do not. 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, Democrat, or unaffiliated executives.[8]

Table 3 presents the results. We observe that executives whose political affiliation matches the majority's have a lower probability of leaving the firm relative to the other executives. The coefficient in column (1), where we include year, firm, and political affiliation fixed effects as well

[8]Due to the inclusion of party-affiliation fixed effects in the regression, the coefficient on $Match\,majority$ will be identified only based on Republican and Democratic analysts, because unaffiliated analysts never change from matching the majority to not matching the majority. Hence, whether we code them as matching the majority or not does not affect our estimate of β.

as individual-level controls, shows a 3.5-percentage-point-lower probability of leaving the firm for executives that the match the political affiliation of the majority.

[Insert Table 3 here]

In the strictest 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 compare, within firm-year, executives whose political views match those of the team's majority and executives whose views are not aligned with the majority. In that specification, we find that when an executive matches the political affiliation of the majority, she has a 2.5-percentage-point-lower probability of departing from the firm. This is an 18.9% decrease relative to the unconditional turnover probability of 13.2% over our sample period. Internet Appendix Table IA.IV shows that the results are robust and magnitudes become even larger when we repeat the analysis on the sub-sample of Democratic and Republican executives only.

In columns (3) to (6), we examine how the effect varies across different time periods. In columns (3) and (4), we see that the coefficient on $Match\,majority_{ift}$ is statistically insignificant and much smaller in terms of economic magnitude during the years 2008–2014. During the period 2015–2017 (columns (5) and (6)), on the other hand, the coefficient estimate is substantially larger than our baseline estimates in columns (1) and (2). This is consistent with political polarization becoming more important during recent years (e.g., Boxell, Gentzkow, and Shapiro (2020)).

4. Insider Trading

Our results so far show that executive teams become more politically polarized over time. Directly contributing to this increasing lack of political diversity, executives who do not share the political views of the other executives are more likely to leave the firm. Thus, political views are likely to have real effects on the composition of executive teams.

Does the diminishing political diversity among executives have any real consequences? For that to be the case, two conditions need to be satisfied. First, executives need to be in a position to affect the allocation of corporate resources. This condition is satisfied given our focus on senior corporate executives such as CEOs, CFOs, and COOs. Second, differences in political views need to translate into differences in executives' views about corporate policies. One natural channel

for this to happen would be via executives' beliefs about the firm's investment opportunities and future performance. In this section, we use insider trading decisions to investigate whether differences in political affiliations reflect differences in executives' beliefs about the firm's future stock performance.

Insider trading decisions provide an ideal laboratory to shed light on whether individuals with different political affiliations hold different beliefs about the firm's future performance. They are made directly by the executive and are directly observable. Importantly, the richness of the trading data allows us to compare trading decisions by executives *at the same firm* who have different political affiliations. We can therefore isolate differences in beliefs that can be attributed to political views, because differences in the types of firms run by executives with different party affiliations, as well as differences in access to information about the firm's future performance, cannot drive our results.

To further strengthen the empirical strategy, we will analyze changes in insider trading around presidential elections. We focus on the 2016 presidential election because it led to a considerable division across party lines about the expected impact of the election on the economy. Moreover, the 2016 election did not coincide with sharp changes in other factors that could drive trading decisions (e.g., via liquidity or hedging needs).

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

$$Insider\ Sell_{ift} = \alpha_{ft} + \alpha_p + \beta\ Republican_{it} + \gamma\ November_t \times Republican_{it} + \delta' X_{it} + \varepsilon_{ift}, \quad (2)$$

where $Insider\ Sell_{ift}$ equals one if insider i sells shares of firm f in year-month t, $November_t$ equals one for the month of the presidential election (November 2016) and zero otherwise, $Republican_{it}$ equals one if insider i is a registered Republican and zero otherwise, and X_{it} is a vector of insider characteristics (number of positions held and an indicator for insiders who hold a CEO position). α_p and α_{ft} refer to political affiliation and firm $\times$ year $\times$ month fixed effects, respectively. The main coefficient of interest is γ, which captures the change in the relative propensity to sell between Republican and non-Republican executives around the 2016 election. If the 2016 election induced greater optimism among Republican executives about their firm's fu-

ture performance relative to non-Republican executives, then we would expect a relative decrease in the likelihood of insider selling for Republicans (i.e., $\gamma < 0$). Table 4 reports the results. The analysis is based on a sample that covers the 2016 election (August through November 2016), when the Republican presidential candidate, Donald J. Trump, won the election.

[Insert Table 4 here]

The coefficient on *Republican* in column (1) is insignificant and indicates that the likelihood of an insider sell during the three months prior to the election (August through October) is similar for Republican and non-Republican executives. The main coefficient of interest, *November* × *Republican*, is negative and statistically significant at the 5% level, suggesting that, relative to non-Republican executives, Republican executives exhibit a lower propensity to sell after the election. The coefficient is -0.1363, indicating the relative decrease in the likelihood of insider selling is about 14 percentage points, which is more than half of the unconditional likelihood of insider selling. Note that the specification includes firm × year × month fixed effects (which absorb the coefficient of *November*), implying that the coefficients are estimated based on within-firm-month variation and therefore cannot be driven by any time-varying firm-level unobservable variables. By construction, these coefficients are estimated based on firms that have both Republican and non-Republican executives.

In column (2), we add political affiliation fixed effects, which absorb the coefficient of *Republican*. The coefficient on *November* × *Republican* remains negative and statistically significant at the 5% level. In column (3), we augment the specification with two executive-level control variables, *Number of positions* and *CEO*. *Number of positions* is the number of positions held by the executive, and *CEO* equals one if the executive serves as a CEO of any firm in our sample, and zero otherwise. The results indicate that the addition of these controls has no significant impact on the estimated coefficients.

In our main specification, we compare changes in insider trading for Republican and non-Republican executives during November 2016. In the Internet Appendix, we augment our regression with the variables *Unaffiliated* and *Unaffiliated* × *November*. In that specification, we compare the trading behavior of Republican, Democrat, and unaffiliated executives. We find that the coefficient on *Republican* × *November* remains quantitatively similar and significant, whereas

the coefficient on *Unaffiliated* × *November* is indistinguishable from zero. These findings indicate that Republican executives responded differently to the November 2016 election outcome than both Democrat and unaffiliated executives.

We perform two important tests to support the causal interpretation of the differential response to election outcomes for Republican and non-Republican executives. Equation (2) makes the implicit assumption that changes in the likelihood of insider selling for Republican and non-Republican executives would have been similar in the absence of the election. The first test addresses the possibility that our empirical strategy captures differences in insider trading dynamics that become relevant during the month of November, regardless of whether a presidential election takes place. To address this possibility, we perform a series of placebo tests in which we estimate equation (2) during the months of August through November for years without a presidential election. In our sample, these years are 2009, 2011, 2013, 2015, and 2017.

Table 5 reports the results. For brevity, we only report the coefficient on the interaction term. The results indicate that across all placebo samples, the interaction coefficient is statistically indistinguishable form zero. Thus, it is very unlikely that there are systematic differences in the trading behavior of Republican and non-Republican executives during the month of November.

[Insert Table 5 here]

The second test, reported in the Internet Appendix, documents the dynamic relationship between changes in insider trading prior to the 2016 election. We replace the *November* variable in equation (2) with three dummy variables indicating the months of September, October, and November of 2016. The results reveal that the insider selling behavior diverges sharply between Republican and non-Republican executives during November 2016. Differences between the two groups are insignificant in all other months.

Combined, these results suggest that political views shape executives' beliefs about the future performance of their firms. Following the election of a Republican presidential candidate, Republican executives are less likely to sell shares than non-Republican executives, indicating they hold more positive beliefs. These differences in beliefs can lead to disagreements within executive teams, which could explain the increasing tendency of executives to sort into firms with like-minded individuals documented in the previous section.

5. Firm Investment

The results on insider trading suggest that differences in political views translate into differences in beliefs about the firm's future stock price performance. In this section, we investigate whether differences in political views also translate into differences in firms' investment decisions.

To do so, we compare investment decisions of firms with varying degrees of political homogeneity. We consider three types of executive teams: executive teams with at least 40% Republican executives, executive teams with at least 40% Democratic executives, and politically balanced executive teams in which neither Republican nor Democratic executives represent more than 40% of the team. We then compare the investment decisions of these three types of firms across different political environments, as measured by the party of the president. We estimate the following specification:

$$\begin{aligned} Capex_{ft} &= \alpha_f + \alpha_{jt} + \beta Rep\,President_t \times Majority\,Rep_{ft} + \gamma Rep\,President_t \times Balanced_{ft} \\ &+ \delta Majority\,Rep_{ft} + \theta Balanced_{ft} + \zeta X_{ft} + \varepsilon_{ft}, \end{aligned} \tag{3}$$

where f, j, and t index firms, industries, and years, respectively. $Rep\,President$ is an indicator equal to one when the party of the president is the Republican party (years 2007, 2008, 2017, and 2018), and zero otherwise. $Majority\,Rep$ is an indicator equal to one when more than 40% of the executive team are Republicans, and zero otherwise. $Balanced$ is an indicator equal to one when neither Republicans nor Democrats represent more than 40% of the executive team, and zero otherwise. X_{ft} includes controls for log of assets and cash flow (see Malmendier and Tate (2005)). α_f and α_{jt} are firm- and industry-by-year fixed effects, respectively.

The results are reported in Table 6. In columns (1) and (2), the dependent variable is log capital expenditures. In columns (3) and (4), the dependent variable is capital expenditures scaled by lagged property, plant, and equipment (PPE). The insignificant coefficient on $Majority\,Rep_{ft}$ indicates that firms with a majority-Republican team invest similar to majority-Democrat teams when a Democrat president is in office.

[Insert Table 6 here]

We next turn to the interaction coefficient $Rep\,President_t \times Majority\,Rep_{ft}$, which indi-

cates how the difference in firm investment between Republican and Democratic teams changes as the president's political party changes from Democrat to Republican.[9] The interaction coefficient is positive and significant, indicating that firms with Republican teams significantly increase their capital expenditures relative to Democratic teams when the party of the president changes from Democrat to Republican. The results remain stable when we control for firms' asset size and cash flows, as well as when we include industry × year fixed effects, which control for industry-level time-trends that could drive investment decisions. For example, the fixed effects allow us to control for the possibility that industries may be directly affected by the economic policies of the president (e.g., oil and gas firms may invest more under Republican presidents because they benefit more from their economic policies).

When we look at balanced teams, the coefficient on *Balanced* is not statistically significant, indicating that, when a Democratic president is in office, firms with politically balanced teams invest similarly to firms with Democratic teams. Looking at how balanced teams change their investment relative to Democratic teams around changes in the president's party, the coefficient on $Rep\,President_t \times Balanced_{ft}$ is positive but statistically insignificant. This suggests firms with politically balanced teams increase their investment somewhat relative to firms with majority-Democratic teams when the party of the president changes from Democrat to Republican. However, we cannot conclude that this difference is statistically significant.

In sum, our findings indicate that Republican and Democratic executive teams respond differently to changes in the political environment— specifically, the party of the president. Thus, the recent trend towards more political polarization of executive teams may affect not only the formation of executive teams, but also firms' investment policies and how these respond to changes in the political environment. Interestingly, the divergence in firm investment seems to emerge only under Republican presidents. This is consistent with existing evidence on the behavior of corporate bond analysts (Kempf and Tsoutsoura (2020)) as well as with survey evidence on households (e.g., Pew Research Center (2019)), where the partisan divide in views of the economy is also stronger under Republican presidents.

[9]Hence, we identify a differential investment policy depending on the political environment and not a time-invariant characteristic of Democratic versus Republican managers as in Hutton, Jiang, and Kumar (2014), who show that Republican managers implement more conservative investment policies on average.

6. Conclusion

This paper establishes a new stylized fact, that executive teams in U.S. firms are becoming increasingly politically polarized. We use political affiliations from voter registration records over the period 2008 and 2018, matched with information on top executives of S&P 1500 firms. Following Easterly and Levine (1997) and Alesina, Devleeschauwer, Easterly, Kurlat, and Wacziarg (2003), we measure polarization as the probability that two randomly drawn executives are affiliated with the same political party. We find a five-percentage-point increase in the political polarization of executive teams over our sample period. The increase is especially pronounced around presidential elections and the passage of Obamacare. The rise in political homogeneity is explained by both a rising share of Republican executives and increased sorting by partisan executives into firms with like-minded individuals.

We further document substantial heterogeneity across party lines in executives' beliefs. Democratic and Republican executives make starkly different trading decisions in their company stock around changes in the political environment. Following the 2016 election, Republican executives are much less likely to sell their shares, indicating more positive beliefs about their firm's future stock price performance. These differences in beliefs along with the documented increase in political polarization have implications for firm decisions. We show that the investment policies of Republican and Democratic executive teams respond differently to changes in the political environment.

Overall, our paper highlights a robust trend in the political polarization of executive teams. This implies that the growing tendency of U.S. individuals to socialize and form relationships and friendships with politically like-minded individuals extends also to the workplace and to high-level decision makers. This paper is the first step in understanding the implications of increased political polarization among firm executives for the U.S. economy.

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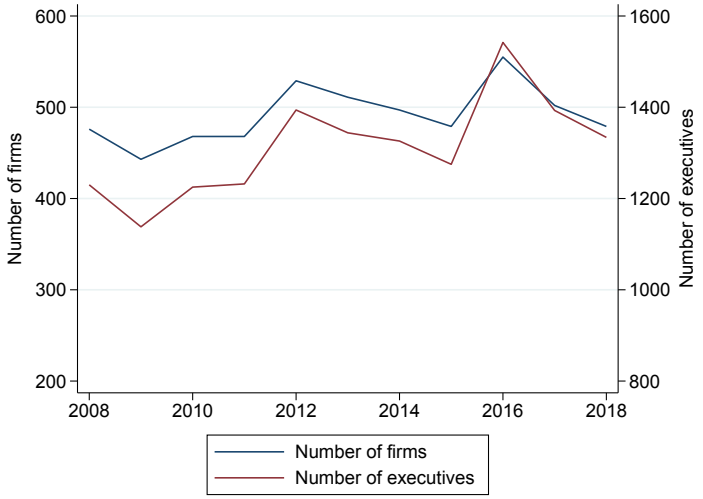
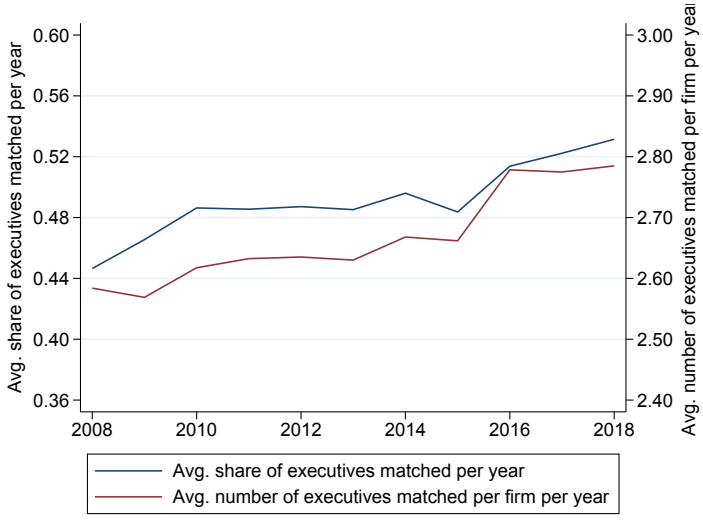


(a) Sample Size by Year



(b) Match Rate by Year

Figure 1: Sample Size and Match Rate By Year

The figure shows the sample size and match rate over time. In Panel A, we plot the number of unique firms and executives for each calendar year. In Panel B, we show the average share of executives that are matched with a voter record as well the average number of executives matched by firm and year. In both panels, we condition on firms with at least two matched executives and we restrict the sample to those matched to either a Democratic or Republican party affiliation.

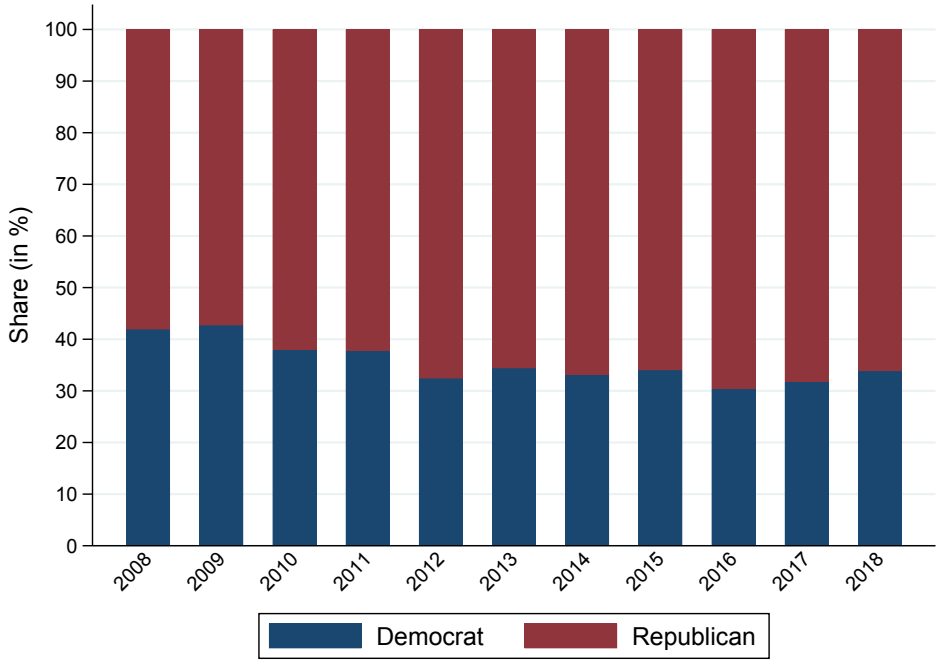
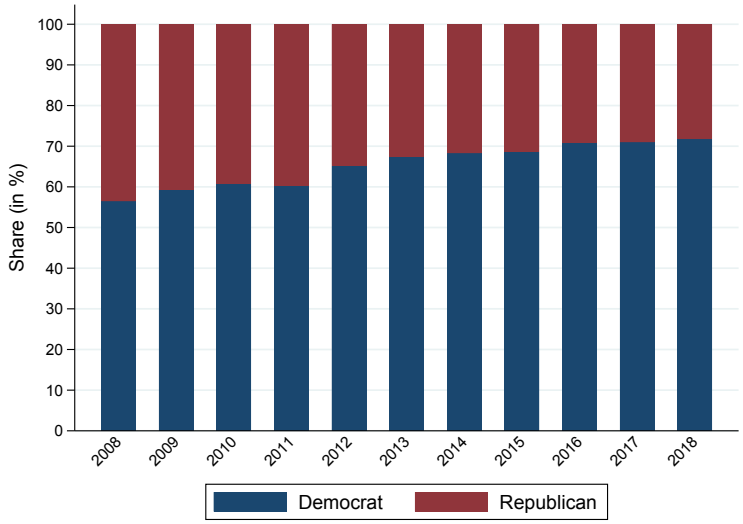
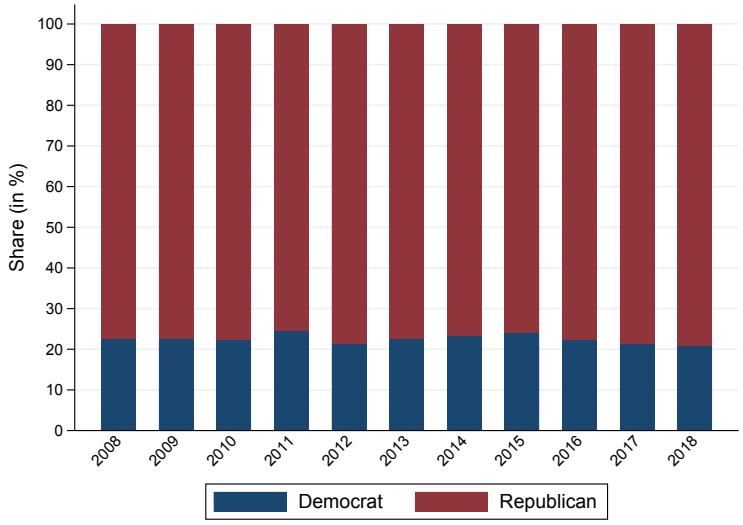


Figure 2: Party Distribution

The figure shows the distribution of party affiliations from voter registration records over time after restricting the sample to Democratic or Republican executives.



(a) Registered Democrats



(b) Registered Republicans

Figure 3: Party Distribution of Political Contributions by Voter Registration

The figure shows the party distribution of political contributions over time, separately for executives who are registered Democrats and registered Republicans. We restrict contributions to those made to either the Democratic or the Republican party.

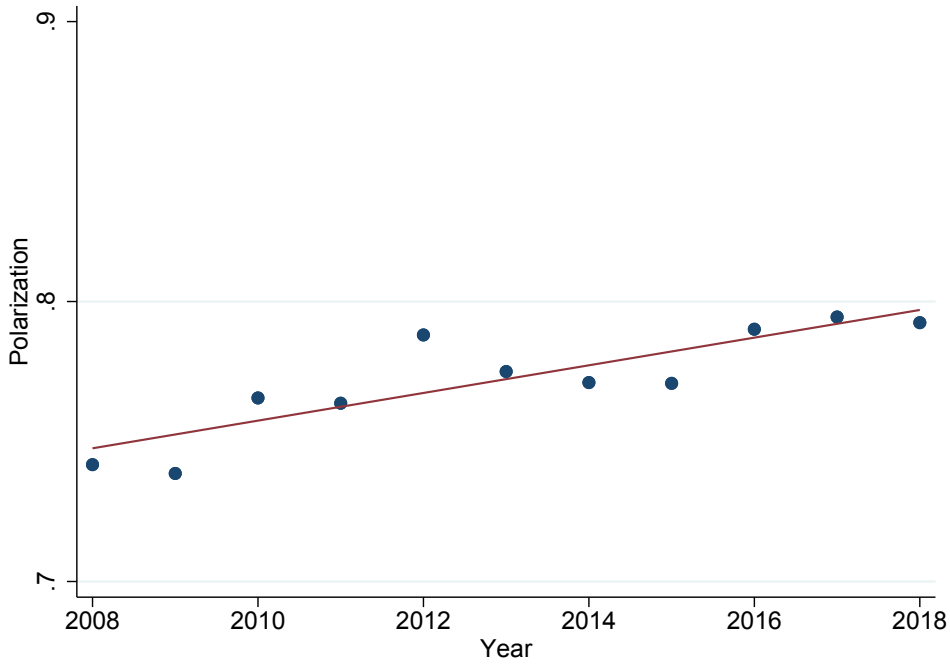


Figure 4: Political Homogeneity Over Time

The figure shows the political homogeneity of executive teams in Execucomp over time. Homogeneity is measured as the probability that two randomly drawn team members are either both Democrats or both Republicans. We restrict the sample to firm-years with at least two matched executives.

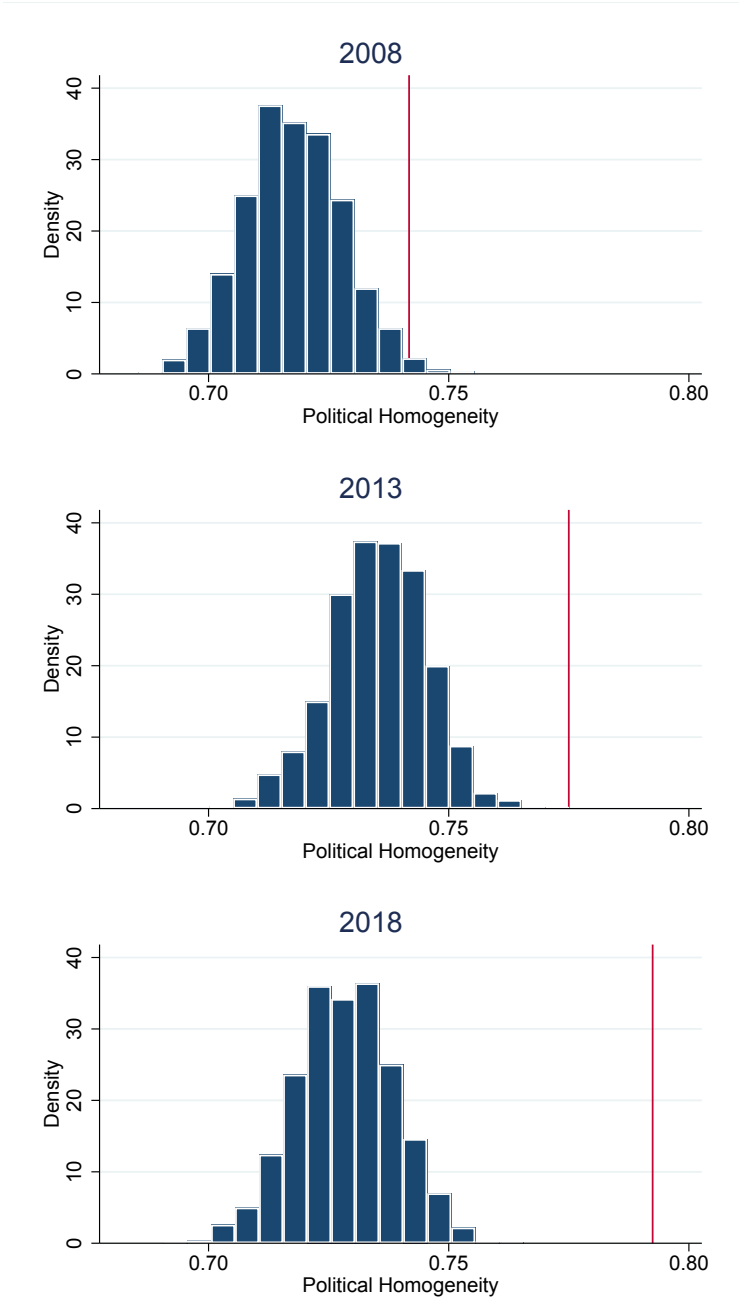
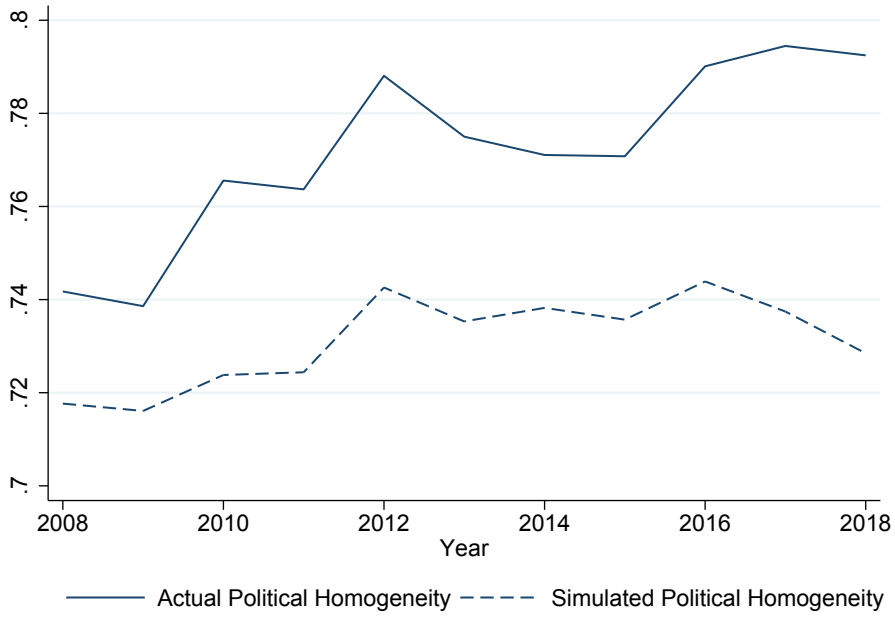
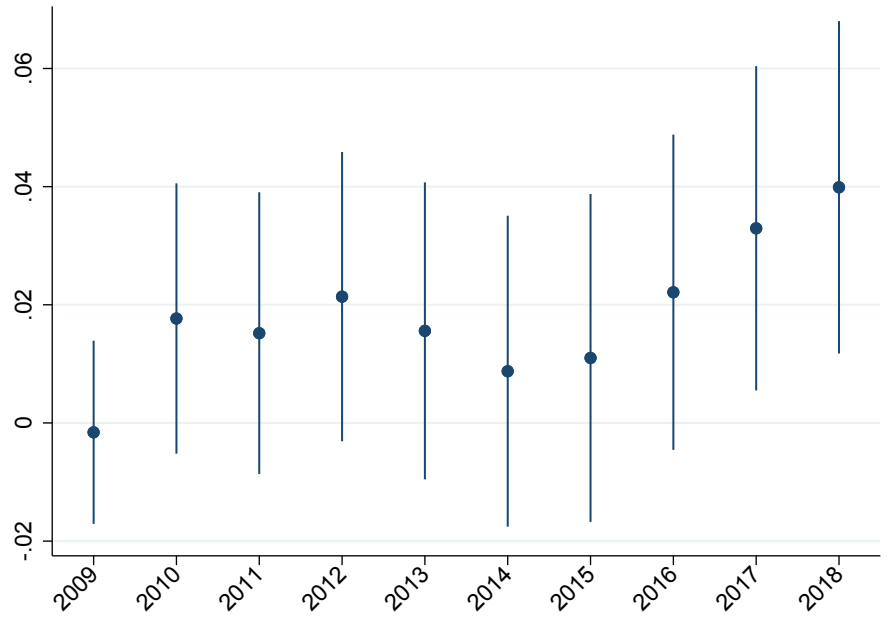


Figure 5: Political Homogeneity: Simulation vs. Actual

The figure plots the histogram of simulated political homogeneity measures after 1,000 simulations. Executives are randomly assigned a political party using the distribution of party affiliation across the sample of executives in a given calendar year. The red line shows the actual homogeneity of the average firm in a given calendar year from our sample after restricting the sample to those matched to either a Democratic or Republican party affiliation.

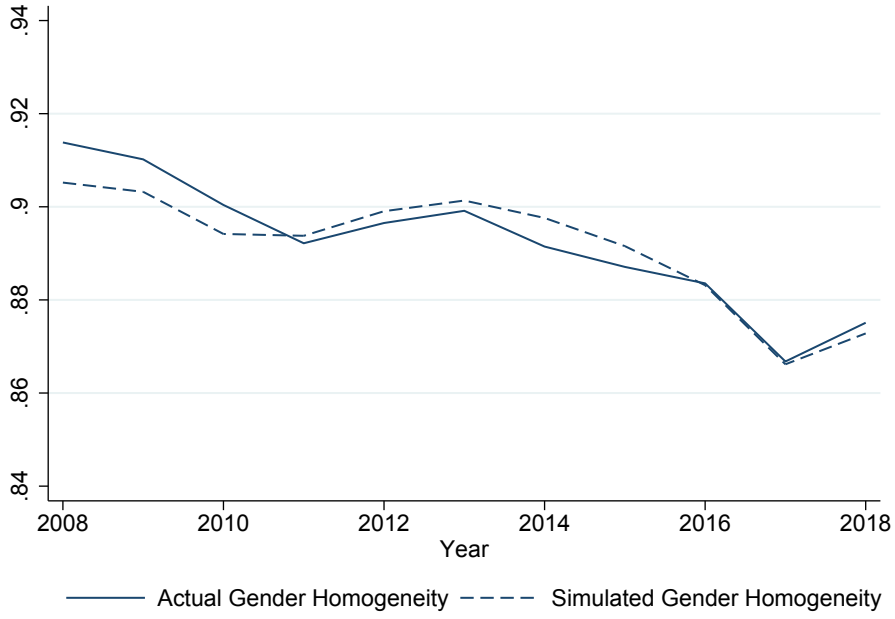




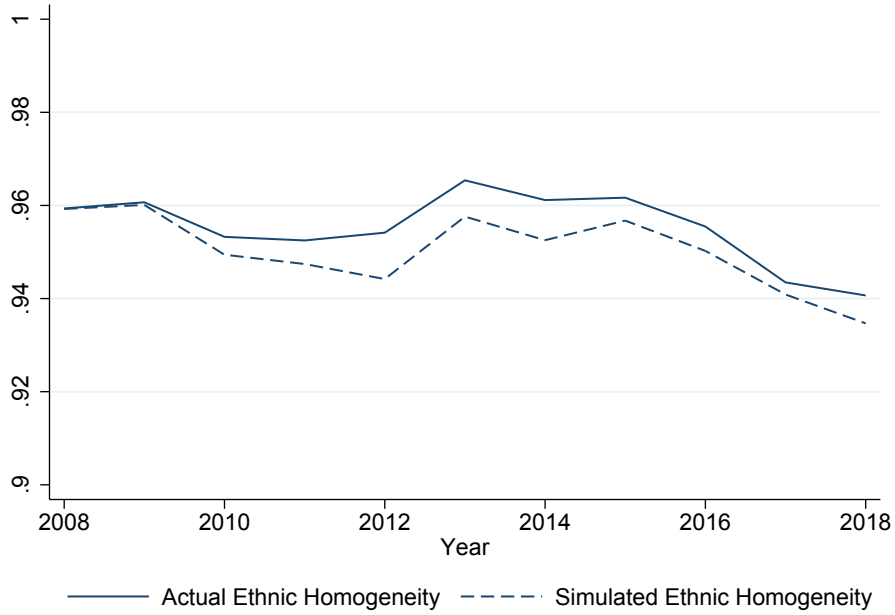
(a) Difference between Actual and Simulated Political Homogeneity

Figure 6: Political Homogeneity: Simulation vs. Actual (Year-by-Year)

Panel A plots the difference between the actual political homogeneity of executive teams in the data (solid line) and the simulated political homogeneity (dashed line) for each calendar year. For the simulation, executives are randomly assigned a political party using the distribution of party affiliation across the full sample of executives in a given calendar year. Panel B plots the average difference between the actual political homogeneity and the simulated homogeneity for each calendar year, along with the corresponding 95% confidence interval. Standard errors are clustered at the firm level. The reference year in Panel B is 2008.



(a) Gender Homogeneity



(b) Ethnic Homogeneity

Figure 7: Other Homogeneity: Simulation vs. Actual (Year-by-Year)

The figure plots the difference between the actual homogeneity of executive teams in the data (solid line) and the simulated homogeneity (dashed line) for each calendar year. Panel A reports results for gender homogeneity, and Panel B for ethnic homogeneity. For the simulation, executives are randomly assigned a gender or an ethnicity using the distribution of gender and ethnicity across the full sample of executives in a given calendar year.

Table 1: Summary Statistics

This table presents summary statistics for our key variables. Panel A reports statistics for the firm-level sample; Panel B reports statistics for our analysis of executive departures; Panel C reports statistics for our insider trading sample (firm-insider-month panel), and Panel D reports statistics for our investment sample.

	N	Mean	St.Dev.	0.25	Median	0.75
Panel A: Firm Level Sample						
Political homogeneity	5,407	0.773	0.233	0.510	1.000	1.000
Gender homogeneity	5,407	0.892	0.194	1.000	1.000	1.000
Ethnic homogeneity	5,407	0.955	0.136	1.000	1.000	1.000
Democrat share	5,407	0.353	0.339	0.000	0.333	0.500
Republican share	5,407	0.647	0.339	0.500	0.667	1.000
Male share	5,407	0.898	0.194	1.000	1.000	1.000
White share	5,407	0.956	0.139	1.000	1.000	1.000
Hispanic share	5,407	0.012	0.072	0.000	0.000	0.000
Black share	5,407	0.002	0.024	0.000	0.000	0.000
Asian share	5,407	0.030	0.120	0.000	0.000	0.000
Number of executives	5,407	5.590	1.152	5.000	5.000	6.000
Number of matched executives	5,407	2.669	0.882	2.000	2.000	3.000
Panel B: Executive Departures Sample						
Executive departure	22,632	0.132	0.338	0.000	0.000	0.000
Match majority	22,632	0.494	0.500	0.000	0.000	1.000
Tenure	22,632	5.088	3.995	2.000	4.000	7.000
White	22,632	0.952	0.214	1.000	1.000	1.000
Above 65 years old	22,632	0.065	0.247	0.000	0.000	0.000
Female	22,632	0.095	0.293	0.000	0.000	0.000
Majority Democrats	22,632	0.235	0.424	0.000	0.000	0.000
Majority Republicans	22,632	0.593	0.491	0.000	1.000	1.000
Panel C: Insider Trading Sample						
Insider trade	92,795	0.230	0.421	0.000	0.000	0.000
Insider sell	92,795	0.222	0.419	0.000	0.000	0.000
Insider buy	92,795	0.008	0.089	0.000	0.000	0.000
Republican	92,795	0.378	0.485	0.000	0.000	1.000
Democrat	92,795	0.241	0.428	0.000	0.000	0.000
Number of positions	92,795	1.112	0.336	1.000	1.000	1.000
CEO	92,795	0.246	0.430	0.000	0.000	0.000
Panel D: Investment Sample						
Log Capital Expediture	6,596	4.091	1.886	2.741	4.089	5.338
Capex/PPE	6,542	0.285	0.361	0.126	0.202	0.327
Majority Republicans	6,624	0.525	0.499	0.000	1.000	1.000
Balance	6,624	0.300	0.458	0.000	0.000	1.000
Log Total Asset	6,607	7.761	1.807	6.557	7.653	8.891
Cash Flow	6,508	0.080	0.127	0.034	0.087	0.138

Table 2: Homogeneity in Executive Teams Over Time

This table regresses the executive team's homogeneity on calendar year. Homogeneity is defined as the probability that two randomly drawn team members have the same political affiliation (Panel A), the same gender (Panel B), or the same ethnicity (Panel C), respectively. *No. of matches* refers to the number of matched executives in the team. *Diversity controls* include measures of ethnic, gender, and age homogeneity in Panel A; political, ethnic, and age homogeneity in Panel B, and political, gender, and age homogeneity in Panel C. Standard errors are clustered at the firm level. The dependent variables are measured in percentage points. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

Panel A: Political Affiliation

Dependent variable: *Political Homogeneity*					
	(1)	(2)	(3)	(4)	(5)
Year	0.4941***	0.5600***	0.5670***	0.4973***	0.5100***
	(0.1427)	(0.1431)	(0.1435)	(0.1500)	(0.1505)
N	5,407	5,407	5,404	5,296	5,294
R^2	0.00	0.02	0.02	0.64	0.64
Fixed Effects and Controls:					
No. of matches	No	Yes	Yes	Yes	Yes
Diversity Controls	No	No	Yes	No	Yes
Firm f.e.	No	No	No	Yes	Yes

Panel B: Gender

Dependent variable: *Gender Homogeneity*					
	(1)	(2)	(3)	(4)	(5)
Year	-0.3975***	-0.3406***	-0.3359***	-0.2881***	-0.2993***
	(0.0895)	(0.0893)	(0.0910)	(0.0839)	(0.0866)
N	8,068	8,068	8,065	7,990	7,988
R^2	0.00	0.02	0.02	0.68	0.68
Fixed Effects and Controls:					
No. of matches	No	Yes	Yes	Yes	Yes
Diversity Controls	No	No	Yes	No	Yes
Firm f.e.	No	No	No	Yes	Yes

Panel C: Ethnicity

Dependent variable: *Ethnic Homogeneity*

	(1)	(2)	(3)	(4)	(5)
Year	-0.2913***	-0.2852***	-0.2952***	-0.2915***	-0.3259***
	(0.0753)	(0.0763)	(0.0786)	(0.0728)	(0.0763)
N	8,068	8,068	8,065	7,990	7,988
R^2	0.00	0.01	0.01	0.69	0.70
Fixed Effects and Controls:					
No. of matches	No	Yes	Yes	Yes	Yes
Diversity Controls	No	No	Yes	No	Yes
Firm f.e.	No	No	No	Yes	Yes

Table 3: Executive Departures

This table regresses executive departures on an indicator equal to one if the executive's party affiliation matches the majority of the team, estimating equation 2. The dependent variable, *Executive Departure* is a binary variable equal to one in the year the executive departs from the executive team, and zero otherwise. *Match majority* is an indicator equal to one when the political affiliation of the executive matches that of the majority in the team, and zero otherwise. The stimation includes controls for tenure of the executive in the firm, ethnicity, whether the executive is older than 65, gender, and the political affiliation of the majority in the team. The sample is restricted to executives who are registered Republicans, Democrats, or unaffiliated voters. 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 2015–2017. Standard errors clustered at the firm level. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

Dependent variable: *Executive Departure*						
Sample Period:	Full Sample		2008–2014		2015–2017	
	(1)	(2)	(3)	(4)	(5)	(6)
Match Majority	-0.0352***	-0.0251**	-0.0140	-0.0050	-0.0828***	-0.0726***
	(0.0092)	(0.0095)	(0.0111)	(0.0112)	(0.0197)	(0.0196)
Tenure	0.0029***	0.0028**	0.0031**	0.0028*	0.0039**	0.0027*
	(0.0008)	(0.0009)	(0.0011)	(0.0011)	(0.0014)	(0.0013)
White	0.0188	0.0204	0.0057	0.0047	0.0448*	0.0482*
	(0.0131)	(0.0129)	(0.0160)	(0.0155)	(0.0228)	(0.0218)
Above 65 years old	0.1208***	0.1114***	0.1077***	0.0974***	0.1432***	0.1361***
	(0.0136)	(0.0137)	(0.0167)	(0.0162)	(0.0246)	(0.0243)
Female	0.0261**	0.0216*	0.0115	0.0061	0.0553**	0.0490**
	(0.0099)	(0.0099)	(0.0124)	(0.0123)	(0.0174)	(0.0169)
Majority Democrat	0.0287*		0.0007		0.1172**	
	(0.0123)		(0.0151)		(0.0359)	
Majority Republican	0.0375***		0.0140		0.1197***	
	(0.0108)		(0.0137)		(0.0273)	
Fixed Effects:						
Firm	Yes	No	Yes	No	Yes	No
Year	Yes	No	Yes	No	Yes	No
Firm × Year	No	Yes	No	Yes	No	Yes
Political Affiliation	Yes	Yes	Yes	Yes	Yes	Yes

Table 4: Insider Trading around the 2016 Election

This table reports the relation between the likelihood of insider selling and the insider's political affiliation. We report estimates of regression (2). The sample is restricted to executives who are registered Republicans, Democrats, or unaffiliated voters as well as to executives with an unconditional likelihood of selling of at least 10% in the average month. The unconditional likelihood of selling is calculated based on the entire trading history of the executive. The sample covers August through November 2016. Standard errors are reported in parentheses and are clustered at the firm level. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

Dependent Variable: *Insider Sell*	(1)	(2)	(3)
Republican	0.0187		
	(0.0376)		
November x Republican	-0.1363**	-0.1363**	-0.1379**
	(0.0536)	(0.0537)	(0.0531)
Number of positions			-0.1490**
			(0.0727)
CEO			0.0276
			(0.0365)
R^2	0.57	0.57	0.58
N	1,638	1,638	1,638
Fixed Effects:			
Firm-year-month	Yes	Yes	Yes
Political Affiliation	No	Yes	Yes

Table 5: Insider Trading: Placebo Tests

This table repeats the analysis in Table 4 for years without presidential elections. In each panel, the sample covers the period from August through November. Standard errors are reported in parentheses and are clustered at the firm level. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

Dependent Variable:	*Insider Sell*		
	(1)	(2)	(3)
Panel A: 2009			
November x Republican	-0.0164	-0.0160	-0.0158
	(0.0535)	(0.0535)	(0.0538)
N	1,088	1,088	1,088
Panel B: 2011			
November x Republican	-0.0619	-0.0621	-0.0618
	(0.0530)	(0.0530)	(0.0531)
N	1,419	1,419	1,419
Panel C: 2013			
November x Republican	0.0292	0.0296	0.0294
	(0.0540)	(0.0540)	(0.0541)
N	1,713	1,713	1,713
Panel D: 2015			
November x Republican	-0.0480	-0.0482	-0.0469
	(0.0428)	(0.0428)	(0.0430)
N	2,028	2,028	2,028
Panel E: 2017			
November x Republican	0.0047	0.0040	0.0027
	(0.0795)	(0.0794)	(0.0795)
N	977	977	977
Fixed Effects:			
Controls	No	No	Yes
Firm-year-month	Yes	Yes	Yes
Political Affiliation	No	Yes	Yes

Table 6: Firm Investment

This table examines the effect of political views on firm investment decisions. We estimate equation (3). In columns (1) and (2), the dependent variable is log capital expenditures. In columns (3) and (4), the dependent variable is capital expenditures scaled by lagged PPE. *Rep President* is a binary variable that takes the value 1 when the party of the president is Democrat (years 2007, 2008, 2017, and 2018) and 0 otherwise. *Majority Republican* is a binary variable that takes the value one when more than 40% of the executive team are Republicans, and zero otherwise. *Balanced* is an indicator equal to one when neither Republicans nor Democrats constitute more than 40% of the team. All potentially unbounded variables are winsorized at 1% and 99%. Standard errors are clustered at the firm level. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

Dependent variable:	CAPEX (log)		CAPEX/PPE_{t-1}	
	(1)	(2)	(3)	(4)
Rep President × Majority Republican	0.0792*	0.0788**	0.0681***	0.0682***
	(0.0457)	(0.0396)	(0.0250)	(0.0246)
Majority Republican	-0.0064	-0.0061	-0.0124	-0.0042
	(0.0468)	(0.0339)	(0.0192)	(0.0188)
Rep President × Balance	-0.0109	0.0195	0.0368	0.0372
	(0.0488)	(0.0416)	(0.0249)	(0.0248)
Balance	0.0378	0.0154	-0.0139	-0.0093
	(0.0438)	(0.0324)	(0.0188)	(0.0185)
Log Total Asset		0.7501***		0.0215
		(0.0353)		(0.0222)
Cash Flow		0.1227		0.3016***
		(0.0981)		(0.1073)
N	6,518	6,418	6,462	6,399
R^2	0.939	0.956	0.382	0.393
Fixed Effects:				
Firm	Yes	Yes	Yes	Yes
Industry × Year	Yes	Yes	Yes	Yes