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The Political Polarization of Corporate America

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There has been a large increase in polarization among political parties in the United States in recent years. Party identification is now a more significant predictor of Americans' fundamental political values than any other social or demographic divide. Social groups, such as families and neighborhoods, are becoming increasingly politically similar. In contrast, we know little about political polarization in the workplace, how it has changed over time, and whether it affects firm value.

To fill this gap, we studied political polarization among the most important decisionmakers in the firm: executive teams. Top executives in publicly listed firms provide an interesting setting for several reasons. First, because of Securities and Exchange Commission disclosure requirements, executives' identities are publicly observable, which allows us to link them to voter registration records and to obtain their party affiliations. Second, they are responsible for designing and executing the most important corporate decisions. Recent studies find that political partisanship shapes the perception of the economy and economic decisions not only by households but also by economically sophisticated agents in high-stakes environments. Therefore, political polarization in executive teams may have important implications for corporate decisionmaking and firm value.

Whether changes in political polarization of executive teams should be similar to trends observed in the general population is not immediately clear. The workplace has historically been more politically diverse and provided

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more opportunities for cross-party interactions than other settings. For example, past research shows that the workplace is much more likely to expose individuals to people of dissimilar perspectives than are other contexts, such as the family, the neighborhood, or a voluntary association. This evidence suggests that alignment of political views may be less important in professional contexts. Moreover, investors, regulators, and stock exchanges have applied pressure to increase diversity in executive teams and on boards of directors, which may also contribute to greater political diversity.

Combining Execucomp data on top executives of U.S. S&P 1500 firms with voter registration records, we showed that executive teams became more partisan between 2008 and 2020. We defined partisanship as the degree to which a single party dominates political views within the same executive team. More specifically, we measured 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 found an increase of 7.7 percentage points in the average partisanship of executive teams between 2008 and 2020. As a reference point, that increase is almost three-quarters of the decrease in gender similarity that we observed over the same period. The increasing partisanship of executive teams is even more remarkable considering the increasing diversity of gender, which should, if anything, lead to greater diversity in political views. We can further rule out the possibility that the increase in partisanship reflects executives' strategic behavior to appear more politically aligned with their peers.

What drives the increase in the political polarization of executive teams? One possibility is that the increase in partisanship reflects changes in the share of Republicans and Democrats in the overall population of executives. Alternatively, the increase in partisanship could result from an increased tendency of executives to match with like-minded partisans. We documented that 61 percent 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 percent is driven by the executive population becoming more politically similar—specifically, Republican.

We further investigated the hypothesis that like-minded executives are matching with each other, and our results showed that executives who share the same political party are 34 percent more likely to work in the same firm. Moreover, we found that the role of political views in determining executives' matching has strengthened over time, particularly between 2016 and 2020. We found that most of the matching effect is driven by increased sorting on political ideology into geographic locations. Sorting into industries and assimilation to other team members by changing party affiliation also help explain the increase in political matching, but the role of those two factors is smaller. Interestingly, the increase in political 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 metropolitan area.

To further support the role of political views in executive-team formation, we documented evidence consistent with political views affecting executives' decisions to leave a firm. We found that within a given year, executives who are politically misaligned with most of the team have a 3.2 percentage point higher probability of leaving the firm than executives whose views are aligned with the majority. This effect corresponds to a 24 percent increase in the likelihood of departure relative to the typical turnover probability of 13 percent. The result holds after accounting for any drivers of executives' departure decisions related to firm conditions. Moreover, we observed an increase in this effect over time.

An important remaining question is whether the departure of politically misaligned executives is good or bad for shareholders. The implications of increased political similarity on shareholder value seem ambiguous. On one hand, greater political similarity may be bad for shareholders if it exacerbates individual partisan biases in economic decisionmaking or leads to inefficient hiring and firing decisions. On the other hand, if partisan disagreement prevents executives from working together efficiently as a team, greater political similarity may be in the interest of shareholders because it avoids deadlock. To investigate this question, we studied abnormal stock returns around the departures of politically aligned and misaligned executives. Departures of misaligned executives trigger substantially larger losses for shareholders, indicating that greater political similarity in the executive suite is likely not in the interest of shareholders. The losses to shareholders around executive departures amount to $238 million for executives who are politically misaligned. We also found evidence that departures of misaligned executives are more likely to be involuntary.

NOTE

This research brief is based on Vyacheslav Fos, Elisabeth Kempf, and Margarita Tsoutsoura, "The Political Polarization of Corporate America," Social Science Research Network, June 2022.

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