

The Political Polarization of U.S. Firms

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June 2021

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“Conversations across lines of political difference occur with the greatest regularity in the workplace.” (Mutz and Mondak 2006)

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- **Sample size:** 26,003 executives

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- **Final sample: 4,041 executives** in 1,218 firms (match rate of 45%)

▶ Geographical distribution

- Advantages of voter registration data relative to political contributions
 - ① Voter registration data provide **cleaner measures of ideological preferences**
 - Political contributions may reflect both consumption and investment motives (e.g., Gordon et al. 2007) or social pressure (e.g., Babenko et al. 2020)
 - ② Party registration has been **shown to be a very good predictor** of self-reported party identification (e.g., Igielnik et al. 2018)
 - ③ A significant share of contributions cannot be linked to any party
 - ④ A non-trivial share of executives (ca. 20%) contributes to both parties, making it difficult to infer a clear party preference

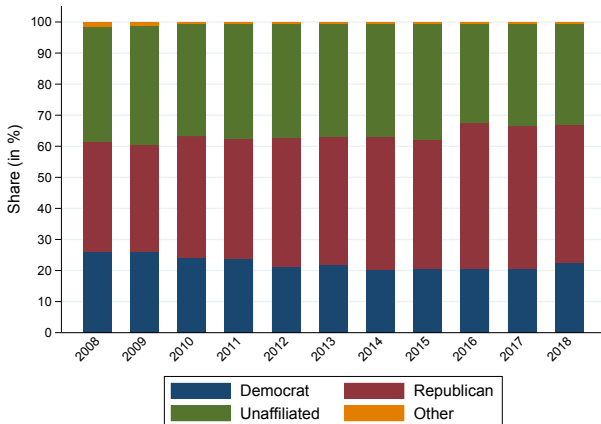


Figure: Voter Registration Records

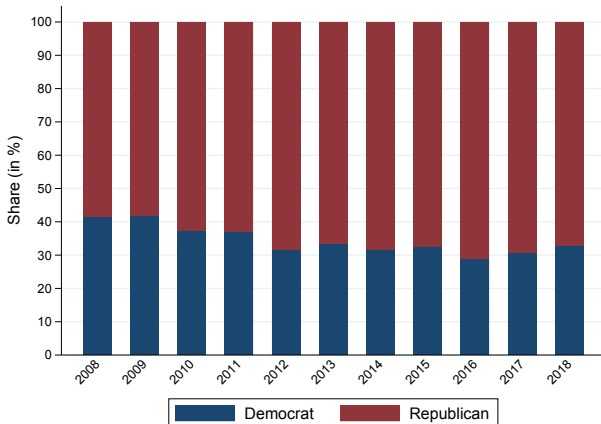


Figure: Voter Registration Records (Excl. Unaffiliated)

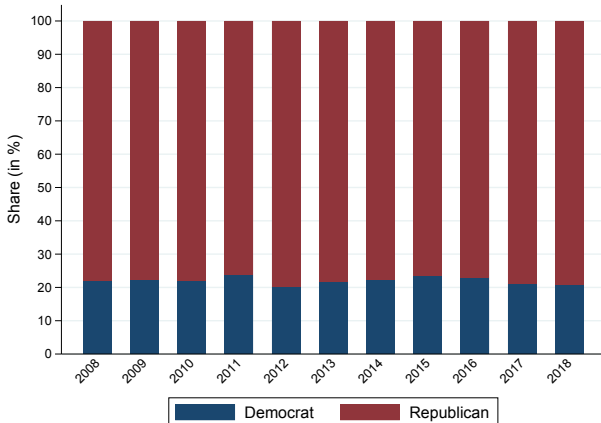


Figure: Contributions by Registered Republicans

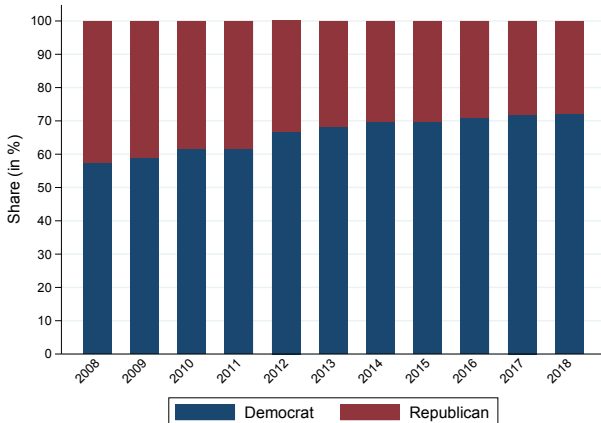


Figure: Contributions by Registered Democrats

- Definition of homogeneity follows Easterly and Levine (1997) and Alesina et al. (2003)

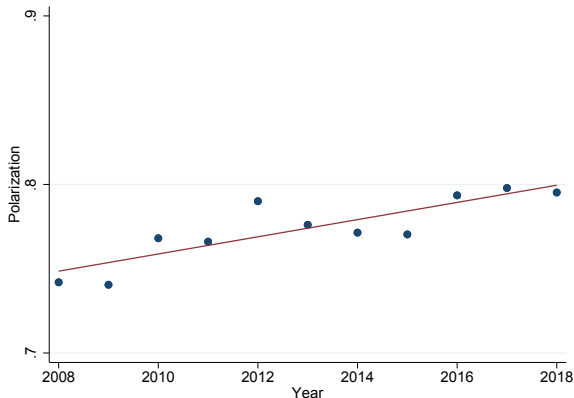
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$$\text{Polar}_{ft} = \text{Share Dem}_{ft}^2 + \text{Share Rep}_{ft}^2, \quad (1)$$

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

- Restrict analysis to Democratic and Republican executives only



- **5 ppt increase** in political homogeneity between 2008 and 2018

Trend in Polarization of Executive Teams

	(1)	(2)	(3)	(4)	(5)
Year	0.5099*** (0.1454)	0.5704*** (0.1459)	0.5826*** (0.1463)	0.5523*** (0.1537)	0.5622*** (0.1541)
N	5,192	5,192	5,189	5,084	5,082
R ²	0.00	0.01	0.02	0.64	0.64
<i>Fixed Effects and Controls:</i>					
No. of matches	No	Yes	Yes	Yes	Yes
Diversity Controls	No	No	Yes	No	Yes
Firm f.e.	No	No	No	Yes	Yes

Diversity Controls: homogeneity in ethnicity, gender, and age

- We continue to find a significant increase in homogeneity if we:
 - Use alternative measures of homogeneity ▶ Alternative measures
 - Include unaffiliated executives ▶ Add unaffiliated
 - Remove within-person variation in party affiliation ▶ No within-person changes
 - Include party affiliation from states without voter history ▶ No history
 - Estimate WLS with log total assets as weights ▶ Weighted linear squares
- ▶ Heterogeneity

Other Homogeneity

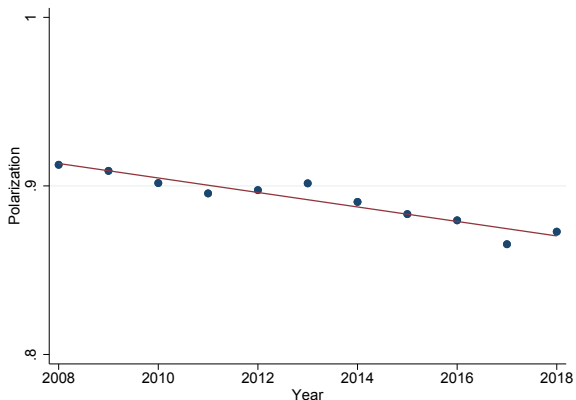


Figure: Gender Homogeneity

Other Homogeneity

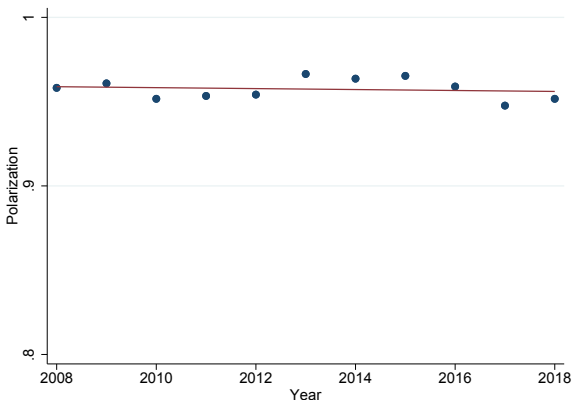


Figure: Ethnic Homogeneity

- Increase in political homogeneity even more remarkable in light of **decreasing gender and ethnic homogeneity**

- Is increase in political homogeneity driven by **increase in the share of Republican executives** or by an **increased tendency of executives to sort** into firms with like-minded individuals?

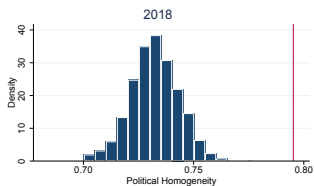
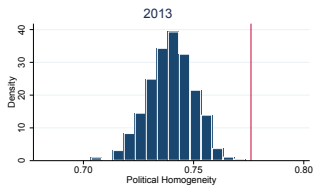
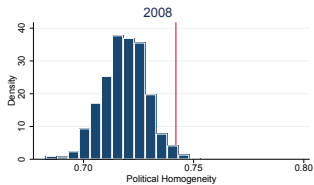
Simulation

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- Perform **Monte Carlo simulations**:

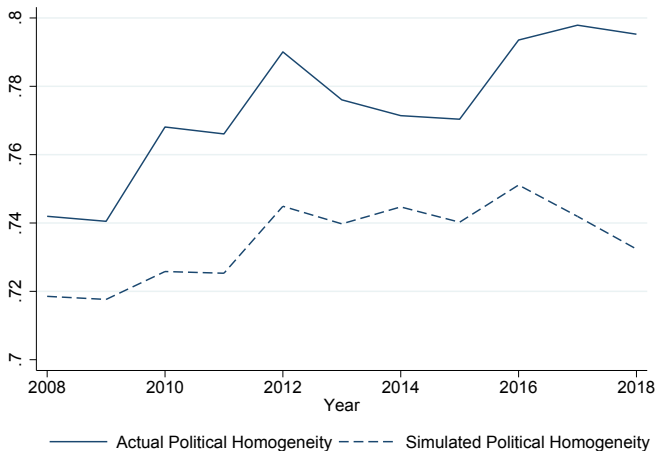
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 - Randomly assign each executive a political party using the share of Democratic and Republican executives in the population of executives in a given year
 - Simulate 1,000 hypothetical datasets

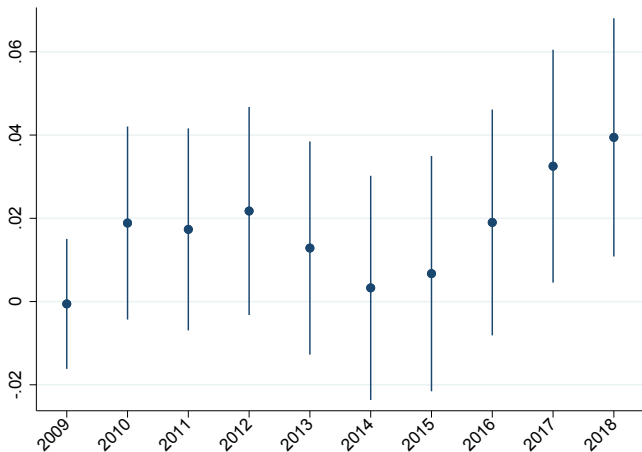
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- **80%** of the increase in homogeneity is driven by **increased sorting**

► By state and industry

Additional Evidence on Sorting

1 Executive Departures

- Within a given firm-year, executives who are misaligned with the rest of the team are **2.5 ppt more likely to leave** (18.9% relative to mean)
- Effect substantially larger in recent years (2015–2017)

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2 Dyadic Regression Approach

- Create all possible executive pairs within a given calendar year (see Colonnelli et al. (2020))
- Allows us to control for influence of several other characteristics (e.g., gender, age, ethnicity)
- Executives who **share the same party** are **37% more likely to work in the same firm**
- Effect gets stronger over time

Potential Mechanisms

- What drives the increase in sorting by political affiliation?
 - ① Legal environment
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- No federal law prohibits discrimination based on political ideology by private employers
- Some states have introduced state laws (e.g., CA, CO, IL, MA, NY, OH)
- Split sample into firms headquartered in states with vs. without such laws in place

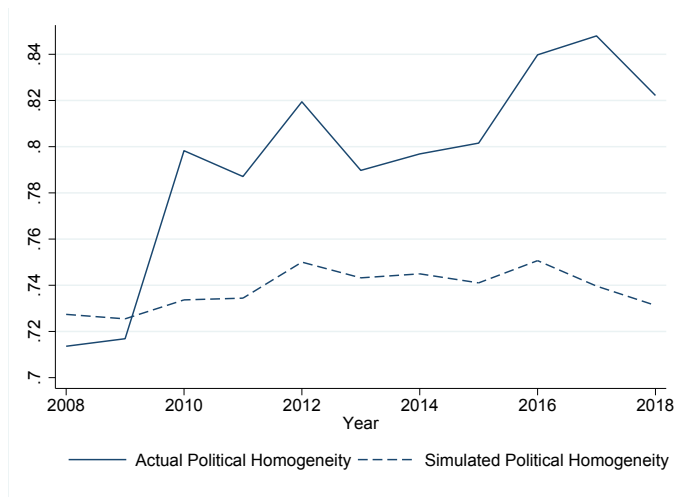


Figure: Firms in States without Law

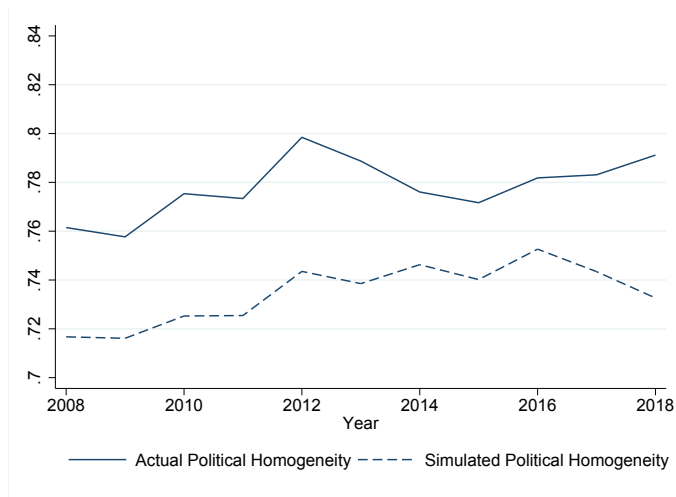


Figure: Firms in States with Law

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 - Increase stronger in firms with low institutional ownership
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 - Increase not stronger in firms in consumer industries
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Conclusion

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- **Implications:**
 - Workplace offers diminishing opportunities to interact across partisan lines
 - Anti-discrimination laws seem to mitigate this trend
 - Policy implications?