

# The Political Polarization of Corporate America

Vyacheslav Fos   Elisabeth Kempf   Margarita Tsoutsoura

Boston College, CEPR, & ECGI

Harvard Business School, CEPR, & NBER

Washington University in St. Louis, CEPR, ECGI & NBER

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- Growing partisan divide in the U.S.
  - Growing dislike and distrust between Democrats and Republicans
  - Increasing political homogeneity of social groups (e.g., families, neighborhoods)
  - Increasing partisan divide in economic expectations

## Introduction

- Growing partisan divide in the U.S.
  - Growing dislike and distrust between Democrats and Republicans
  - Increasing political homogeneity of social groups (e.g., families, neighborhoods)
  - Increasing partisan divide in economic expectations
- Open questions:
  - 1 Has corporate America become **more partisan?**
  - 2 What are the economic **consequences?**

- ① Political Polarization of Corporate America (*w. Fos and Tsoutsoura*)
  - Increase in partisanship of U.S. executive teams, measured using executives' party affiliations
  - Politically misaligned executives are more likely to leave in recent years
  - Large negative stock price reaction to departures of misaligned executives

### ① Political Polarization of Corporate America (*w. Fos and Tsoutsoura*)

- Increase in partisanship of U.S. executive teams, measured using executives' party affiliations
- Politically misaligned executives are more likely to leave in recent years
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### ② Partisan Corporate Speech (*w. Cassidy*)

- Increase in partisanship of corporate speech on social media, measured by its similarity to speech by politicians

## ① Political Polarization of Corporate America

- 1 Has the **political partisanship of U.S. executive teams** changed?
  - Partisanship = the degree to which political views within the same executive team are dominated by a single party
  - Not obvious: Push towards greater diversity in C-suite in recent years
  - Relevant in light of growing evidence on partisan bias in financial decisions

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  - Relevant in light of growing evidence on partisan bias in financial decisions
- ② What are the consequences of greater partisanship **for firm value**?
  - Ex ante not obvious



- 1 Top-earning executives in S&P 1500 firms from Execucomp (29,607)
- 2 **Voter registration records**
  - Coverage: CA (SF Bay area), CO, IL, MA (Boston area), NJ, NY (New York City), NC, OH, TX, between 2008–2020
  - Party affiliation: Either party registration status (when available) or from primary elections

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- **Main sample: 4,343 partisan executives** (DEM/REP) in 1,282 firms (6,679 incl. unaffiliated)

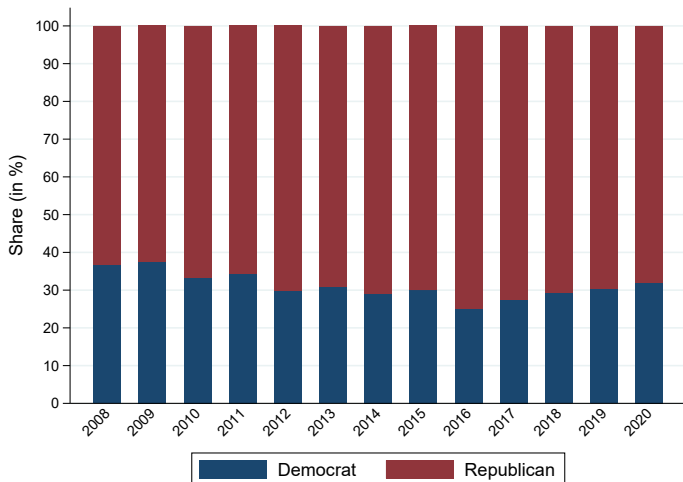


Figure: Party Affiliation (Excl. Unaffiliated)

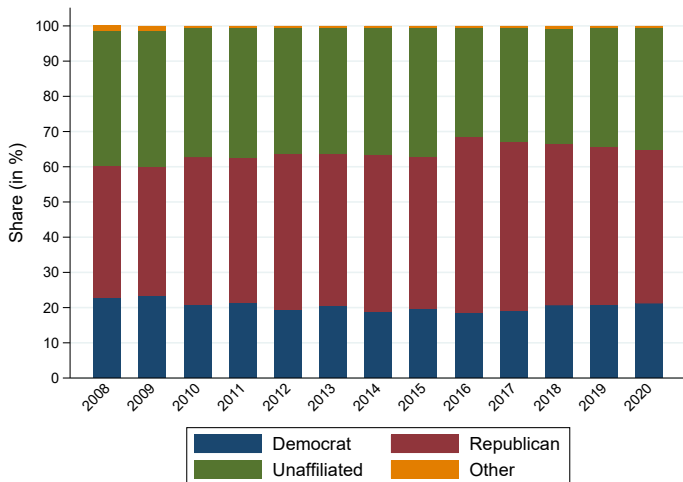


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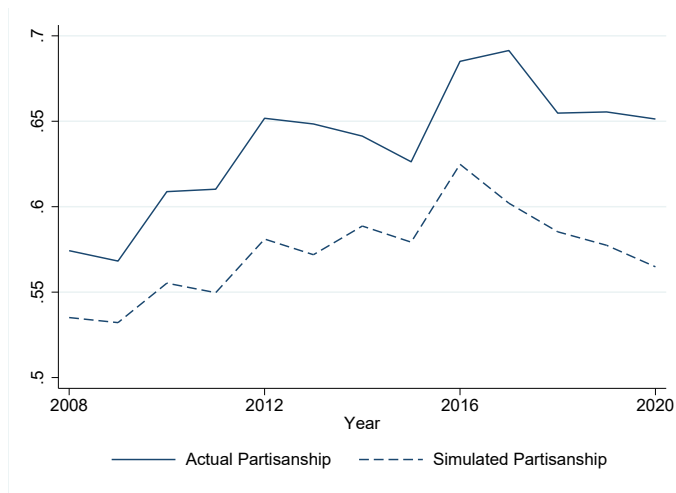
$$\text{Partisan}_{ft} = \left( \frac{\text{DEM}_{ft}}{\text{DEM}_{ft} + \text{REP}_{ft}} \right)^2 + \left( \frac{\text{REP}_{ft}}{\text{DEM}_{ft} + \text{REP}_{ft}} \right)^2, \quad (1)$$

where  $\text{DEM}_{ft}$  and  $\text{REP}_{ft}$  refer to the number of registered Democrats and Republicans in firm  $f$  in year  $t$ , respectively.

- Small sample bias adjustment:

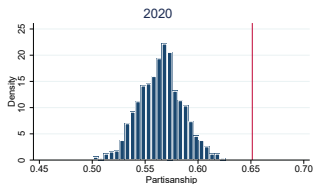
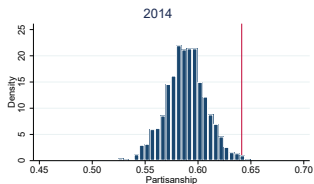
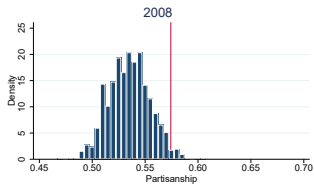
$$\widehat{\text{Partisan}}_{ft} = \frac{N_{ft} \times \text{Partisan}_{ft} - 1}{N_{ft} - 1}$$

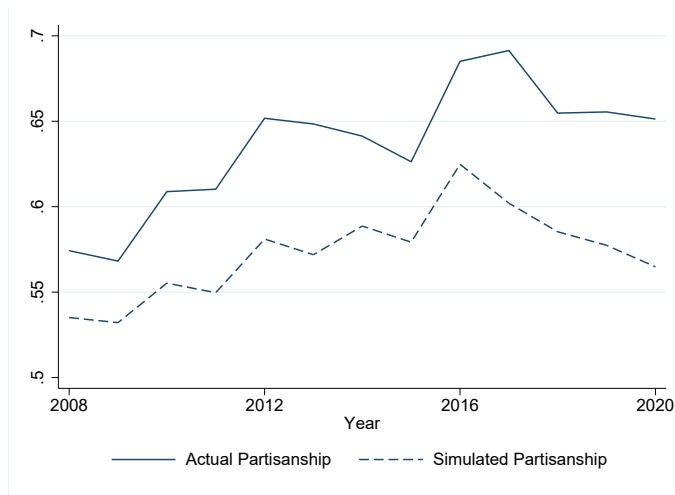




- **7.7 ppt increase** in partisanship between 2008 and 2020







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- **61%** of the increase in partisanship is driven by **increased political matching**



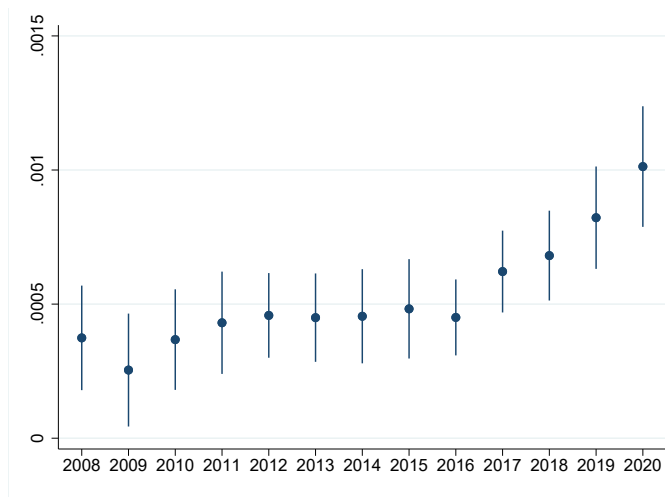


Figure: Effect of Shared Party Affiliation By Year

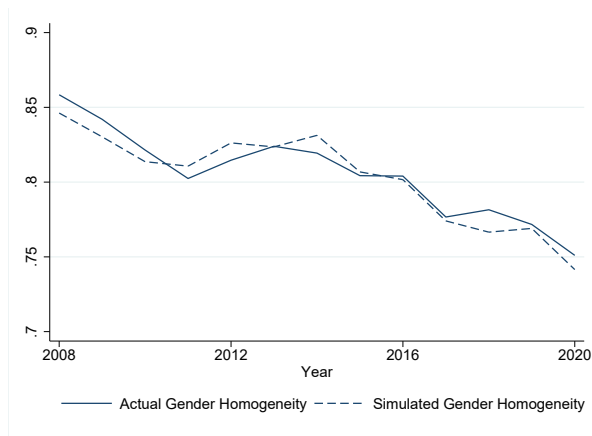


Figure: Gender Homogeneity: Simulation vs. Actual

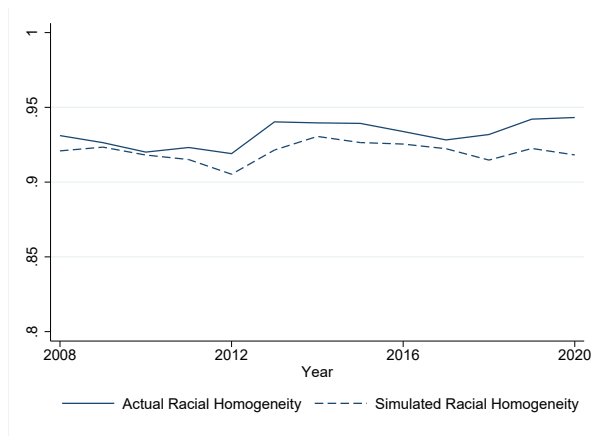


Figure: Racial Homogeneity: Simulation vs. Actual

- Increase in the predictive power of shared party affiliation is robust to:
  - Including unaffiliated and/or unmatched executives
  - Using a broader sample of states (commercial voter data)

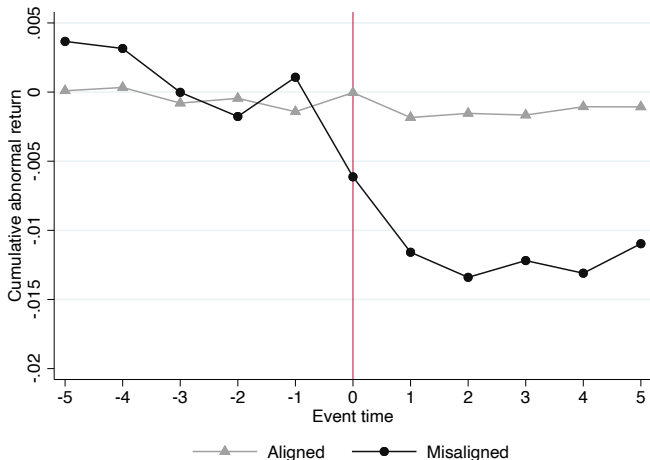
- Increase in the predictive power of shared party affiliation is robust to:
  - Including unaffiliated and/or unmatched executives
  - Using a broader sample of states (commercial voter data)
- Driven by increased sorting on political affiliation into **geographies**
- Increase in political matching **twice as large for executives** than if they had followed local population trends



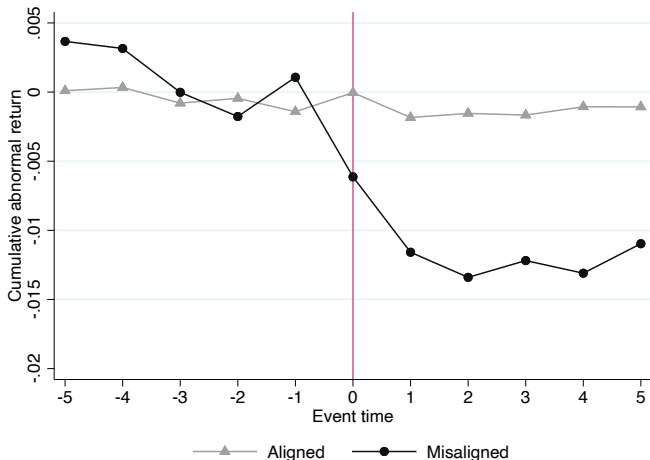
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- Analysis of executive departures:
  - Within a given firm-year, misaligned executives are **3ppt more likely to leave** (24% relative to mean)
  - Effect gets stronger over time
  - Symmetric for Democratic and Republican executives

- How does the **stock market** react to departures of aligned vs. misaligned executives?
  - Ex ante not obvious
- Found the announcement date for 68% of executive departures using news searches (ca. 900 events)
- Test whether abnormal stock returns are different for aligned versus misaligned executives



- **1.3% larger decline in firm value** for **misaligned** executives



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- Departures of misaligned CEOs are more likely to be **involuntary**

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- **Idea:** use executives' **trading of own company's stock** as a measure of economic disagreement

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- Growing body of evidence that partisans disagree about the state of the economy
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- Results:
  - Partisan executives increasingly disagree about the future performance of their company around presidential elections
  - A larger divergence in their trades predicts a larger partisan gap in executive departures

- ① Political Polarization of Corporate America
- ② Partisan Corporate Speech



- 1 Has **speech** by U.S. companies become **more partisan**?
- 2 What are the **economic consequences** of partisan corporate speech?

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- **Idea:** (1) Use social media. (2) Identify corporate tweets that could have been **sent by a Republican or Democratic politician**
- Example: if Democratic politicians tweet a lot about “climate change,” then a company tweet about climate change is labeled as Democratic-sounding
- Builds on model of partisan speech by Gentzkow, Shapiro, and Taddy (2019)

- Politician tweets:
  - 5.7 million original tweets by 150 Senators and 721 Representatives
- Corporate tweets:
  - 3.5 million original tweets by S&P 500 companies between 2011 and 2022
  - 632 out of 751 companies (84%) have an active Twitter account
- Based on politician tweets, estimate the posterior **probability that a phrase came from a Democrat or Republican**

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Most Partisan Bigrams in 2021:

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Democratic	Republican
vote right	critic race
health care	nation secur
gun violenc	tax spend
climat chang	spend spree
child care	god bless
work famili	open border
im proud	secur border
right vote	law enforc
john lewi	men women
make sure	small busi

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- Highly Democratic-sounding tweet:

“The heartbreaking loss of George Floyd’s life and the powerful response to it are excruciating reminders of the progress we still need to make in our communities. We’re pledging \$1 million to nonprofit orgs committed to social justice and racial equity.”

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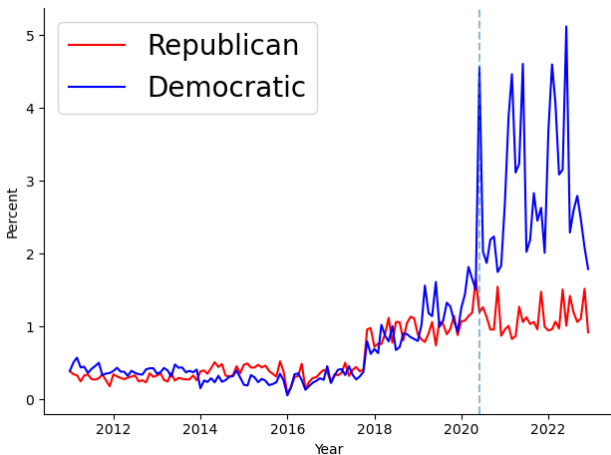
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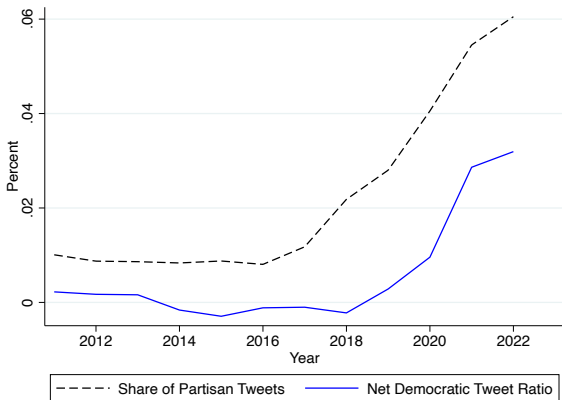
“#TaxReform is essential to keeping workers, job creators & economy competitive in the 21st-century #TaxReformTuesday”

(CF Industries, November 2018)

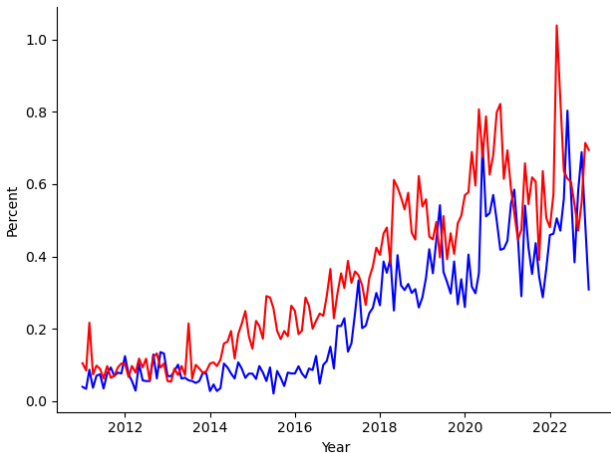




- Increase in the share of corporate tweets with a partisan slant
- Stronger increase in Democratic slant



- Not driven by a few companies that are very active on Twitter
- Similar trend across almost all sectors



- Random sample of Twitter accounts shows different patterns

- Consequences of partisan corporate speech:
  - Close to zero intraday stock price reaction around partisan corporate tweets on average
  - Increase in company mentions by politicians
  - Negative mentions by politicians trigger negative stock price reactions at intraday frequencies
  - Positive mentions do not trigger a positive response

## Conclusion

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- The two studies document **corporate America has become more partisan:**
  - U.S. executive teams more partisan
  - Corporate speech on social media more partisan
- Both are relatively recent phenomena (post 2016)
- Initial evidence suggests some of these trends have negative value consequences for firms