Where to Hire?
CEO-Governor Political Alignment and Internal Labor Allocation*

Wanyi Wang† Linghang Zeng‡

May 2025

Abstract

This paper studies how political alignment between a firm's CEO and a state's governor affects the firm's internal labor allocation. We find that firms increase employment in states where the CEO is politically aligned with the governor. This effect remains robust when we exploit close gubernatorial elections as a source of plausibly exogenous variation in political alignment. The effect is stronger for firms with more politically polarized CEOs and in more recent years, consistent with rising political polarization. Further analysis suggests that the observed employment shifts are driven by CEO optimism about local policies and economic conditions, rather than by personal political preferences. However, we find that such politically motivated labor expansion is associated with lower stock returns in the following year. Overall, these findings indicate that political alignment with state governors shapes firms' internal labor allocation decisions, though it may come at the expense of shareholder value.

Keywords: Partisanship, Political alignment, Internal labor allocation, Employment.

*We thank Ran Duchin, Michael Goldstein, Laurie Krigman, Yue Li, Luke Stein, Jerome Taillard, and seminar participants at Babson College for helpful comments.

†Babson College. Email: wwang@babson.edu.

‡Babson College. Email: lzeng@babson.edu.

1 Introduction

Political polarization in the United States has intensified significantly over the past few decades, raising important questions about how it affects economic and financial decision-making. A growing body of research documents how partisanship affects executive beliefs and corporate decisions at the firm level (see Kempf and Tsoutsoura (2024) for a review). Many firms operate across multiple states and must navigate politically diverse environments within their organizations, yet little is known about how partisanship affects their internal resource allocation. We fill this literature gap by studying whether political alignment between CEOs and state governors affects firms' internal labor allocation.

Conceptually, it is unclear whether, and to what extent, political alignment between a CEO and a state governor influences a firm's labor allocation across states. On one hand, CEOs are typically expected to make these decisions based on business judgements, largely independent of their own political ideology. On the other hand, political alignment between a CEO and a state governor could shape the CEO's perceptions of local policies and economic conditions, influencing their internal labor allocation decisions. For example, when a CEO and a governor share similar political views, the CEO might anticipate favorable policies—such as reduced taxation, lighter regulatory burdens, or increased access to subsidies—that benefit the firm or its industry. Political alignment may also boost the CEO's confidence in the state's economic outlook and future demand. Finally, CEOs could expand in politically aligned states simply because of personal preferences toward governors with shared political beliefs. Together, these factors can lead to increased employment and expansion of operations within politically aligned states.

To examine the relationship between political alignment and firm internal labor allocation, we start with establishment-level data from Data Axle (formerly Infogroup) and construct a granular firm-state-year-level dataset spanning 1997 to 2023. This dataset links state-level employment to the political alignment between a firm's CEO and the governors of the states where the firm operates. We determine CEO political alignment by inferring

individual-level CEO political leanings from their past political donation records, while party affiliations of state governors are obtained from public sources. Unlike much of the existing literature that relies primarily on political alignment variation generated by presidential elections, our paper leverages gubernatorial elections, which occur far more frequently, with over 50 races within each four-year presidential cycle. This higher frequency provides richer variation in political alignment, enhancing our ability to analyze its effects on corporate labor allocation decisions.

The granular dataset allows us to exploit high-dimensional fixed effects to identify the impact of political alignment on firms' internal labor allocation. Specifically, we compare employment growth between politically aligned and nonaligned states within the same firm in the same year by including firm-by-year fixed effects. This controls for time-varying firm-level factors such as overall employment change. We also compare employment growth across firms with differing CEO ideologies within the same state and the same year using state-by-year fixed effects, which accounts for local economic and political conditions, including political uncertainty associated with gubernatorial elections. Additionally, firm-by-state fixed effects control for time-invariant relationships between firms and the states where they operate, such as geographic proximity between a firm's headquarter and a given state. Together, these high-dimensional fixed effects address most concerns about omitted variable bias, as any remaining bias would require variation at the firm-state-year level.

Our main analysis shows that political alignment significantly influences firms' internal labor allocation. Specifically, when a CEO and a governor share the same political ideology, the firm's employment growth in that state is 0.65 percentage points higher than in states without such alignment. Given the average employment growth rate of 1.7%, this effect represents a substantial 38.2% increase, underscoring the economic significance of political alignment with governors in shaping firms' labor decisions.

The effect is more pronounced among firms led by CEOs who are more politically polarized, as measured by those donating exclusively to one party, and those who are more

politically active, as indicated by the total amount of their political contributions. We also find that the impact has strengthened in recent years, consistent with rising political polarization; specifically, the effect becomes more pronounced after 2010, consistent with Duchin et al. (2023). Importantly, our finding remains robust even when political alignment is defined not just at the CEO level, but across the entire executive team, reinforcing the robustness of our finding.

To better understand the timing of the political alignment effect, we examine its dynamics over the gubernatorial election cycle. We find that the effect is most pronounced in the second year after an election, suggesting that firms need time to assess the political environment and its implications before making major changes to their internal labor allocation. This delayed response is consistent with the notion that firms must first observe the governor's policy directions and local economic developments before allocating resources across states.

Despite the inclusion of stringent fixed effects, one might still be concerned that CEOs may donate strategically to the party of a governor or a candidate likely to win in anticipation of future business expansion in that state. If this is the case, political alignment between a CEO and a governor could be endogenously formed and vary over time, generating firm-state-year-level variation not fully captured by our fixed effects. To address this concern, we refine our analysis by focusing on close gubernatorial elections, which provide a source of plausibly exogenous variation in the political alignment between CEOs and governors. Specifically, we define close elections as those with a margin of victory of less than 5 percentage points between the top two candidates, and restrict the sample to the two years before and after these elections. Under this stricter specification, the estimated effect of political alignment on employment growth continues to hold and increases to 1.33 percentage points, indicating that our results are not driven by endogenous CEO-governor alignment.

Additionally, one remaining concern is that the observed effects may not be driven by CEO-governor political alignment per se, but by alignment between the firm's industry and the governor's policy. Namely, if Republican (Democratic) CEOs concentrate in industries

that benefit from Republican (Democratic) governors' policies, the CEO-governor alignment would simply reflect industry-governor alignment. As a result, the effect we document could simply be due to firms benefiting from state policies regardless of the political ideology of their CEOs. To address this concern, we compare firms from the same industry operating in the same state in a given year by including industry-state-year fixed effects in the main regression. Even after controlling for this effect, the coefficient on CEO-governor political alignment remains robust, supporting the interpretation that it is the CEO's political ideology—rather than industry-level policy alignment—that drives the result.

After documenting the relationship between political alignment and internal labor allocation, we now explore the underlying economic mechanisms that might explain this effect. Specifically, we explore two potential channels through which politically aligned states might experience higher employment growth. First, CEOs may be more optimistic about state policies or local economic environment when they are politically aligned with state governors. Second, CEOs may simply favor politically aligned governors based on personal ideological preferences, regardless of any tangible economic benefits. To distinguish between these two channels, we examine how the effect of political alignment varies across industries. The idea is that if the effect is driven by CEO optimism about state policies or economic conditions, it should be more pronounced in industries that are particularly sensitive to partisan changes. In contrast, if the effect stems from CEOs' personal preferences, we would expect it to appear more uniformly across industries.

To measure an industry's sensitivity to partisan changes, we use stock return reactions to the 2016 and 2020 U.S. presidential elections. The underlying intuition is that industries sensitive to economic policies of different parties would show opposite stock reactions to these two elections, while industries less affected by policy changes would show little change. We rank industries based on stock returns around both elections, and define the partisan sensitivity index as the absolute change in the two rankings. We then divide industries into high- and low-sensitivity groups, and run our baseline models separately on these two

groups. The result shows that the effect of political alignment on labor allocation is entirely concentrated on partisan-sensitive industries, suggesting that CEO optimism about politically aligned states rather than personal preferences play an important role in explaining the higher employment growth in aligned states.

Next, we explore whether the observed optimism stems from expectations about local pro-business policies or local demand. If it is primarily about local demand, the effect should be concentrated in non-tradable industries, which rely more heavily on local consumers. Conversely, if policy optimism is also a factor, we would expect to see effects in tradable industries as well. To test this, we replicate our baseline analysis separately for tradable and non-tradable sectors. We find significant effects in both, suggesting that optimism about both local demand and state policies likely contributes. To further isolate the role of policy expectations, we examine state-level government subsidies received by firms. We find that companies are significantly more likely to receive subsidies from states where the CEO is politically aligned with the governor. This result supports the notion that political alignment enhances access to favorable state policies, which may in turn drive increased employment in those states.

After exploring the underlying channels of the political alignment effect, we next examine the value implication of politically driven labor allocation. Although our mechanism analysis indicates that our findings are driven by CEOs' optimism due to political alignment, it remains unclear whether this behavior enhances or decreases firm value. The answer depends on whether CEOs' optimism is based on rational expectations or reflects biased judgment. To address this, we identify firms that grow their workforce more in aligned states than in misaligned states, and examine how such partisan allocation behavior relates to future stock returns. We find that firms exhibiting stronger partisan labor allocation earn 1.3 percentage points lower stock returns in the following year. This suggests that politically motivated labor allocation decisions may reflect CEOs' biased expectations about future policies or economic conditions in aligned states, which may not serve shareholders' best interests.

Further, since politically driven labor allocation reduces firm value, we should expect the political alignment effect to be more pronounced in firms with weaker corporate governance, where CEOs face fewer constraints and have more managerial discretion. Consistent with this idea, we find that the political alignment effect is significantly stronger in firms with low corporate governance scores, using data from Morningstar Sustainalytics. Importantly, this effect appears specific to the governance dimension, as similar patterns do not arise when using environmental and social ratings. These results suggest that weak internal oversight exacerbates value-destroying, politically driven labor allocation decisions.

Finally, we perform several additional tests to strengthen the validity of our findings. We start by restricting our sample to partisan CEOs to provide a clearer comparison between politically aligned and misaligned CEOs. We also use the full donation history of CEOs to construct a time-invariant measure of political leanings. Moreover, we construct a continuous measure of CEO-governor political alignment to capture varying degrees of political polarization. Furthermore, we exclude firm headquarters from our analysis and find that the main result remains consistent. Lastly, we apply a stricter definition of close elections (a 2.5% margin) and find that the result continues to hold. Taken together, all these results confirm that firms increase employment in states where the CEO is politically aligned with the governor, suggesting that political alignment plays an important role in explaining firms' internal labor allocation.

This paper contributes to the literature on political ideology and corporate decision-making (Di Giuli and Kostovetsky, 2014; Hutton et al., 2014, 2015; Kempf et al., 2023; Ayyagari et al., 2025). Focusing on labor-related outcomes, Lee et al. (2014) show that political alignment between the CEO and independent directors is associated with worse performance. Babenko et al. (2020) find that CEOs affect employees' campaign contributions. Rice (2023) finds that an alignment in partisan affiliation between a firm's management and the president is associated with higher levels of investment and employment at the firm level. Colonnelli et al. (2022) find that business owners are considerably more likely to em-

ploy copartisan workers. Fos et al. (2022) document that executive teams in U.S. firms are becoming increasingly partisan. Duchin et al. (2023) show that politically divergent firms, as measured by the political views of their employees, are less likely to merge. Engelberg et al. (forthcoming) find that Republicans start more businesses than Democrats, and the gap is even larger under Republican administration. Unlike these studies, which focus on firm-level outcomes, we delve into *internal* decision-making processes by examining how political alignment with local governors affects firms' labor allocation within the company.

We also contribute to the literature on firms' internal labor decisions. Giroud and Mueller (2015) show that firms reallocate capital and labor from less productive plants to more productive plants. Tate and Yang (2015) document that diversified firms redeploy labor to more productive industries. Zeng (2020) finds that firms hire more workers in an area where other areas that firms operate experience strong competition for talent from VC backed startups. Acharya et al. (2023) show that firm reallocate labor from areas that are affected by heat shocks to unaffected areas. While the existing literature focuses on internal and environmental factors determining the internal capital and labor decisions, we show that *political factors*, such as political alignment between CEOs and governors, are important in understanding firms' internal labor allocation.

In addition, our paper is related to the literature studying the impact of state gubernatorial elections on firm policies. Existing papers have analyzed the impact of gubernatorial elections on firm investment (Jens, 2017), initial public offering (Çolak et al., 2017), merger and acquisition (Chen et al., 2023), research and development(Atanassov et al., 2024). These papers focus on the political uncertainty channel through which gubernatorial elections affects firm policies. In contrast, we study the impact of *political alignment* between CEOs and governors on firm policies, specially internal labor allocation.

The rest of the paper is organized as follows. We detail the data and measure in Section 2. We describe our main result on the impact of political alignment on internal labor allocation in Section 3. We discuss the mechanism in Section 4, study the value implications

in Section 5, and present additional results in Section 6. We conclude in Section 7.

2 Data and Measure

In this section, we outline the data and key measures used in our analysis. Section 2.1 describes data sources used to construct the main dataset. Section 2.2 details the measurement of firms' political leanings, derived from the political donation of their CEOs. Section 2.3 presents summary statistics.

2.1 Data

Our analysis begins with establishment-level employment data from Data Axle (formerly Infogroup), a comprehensive dataset that provides detailed information on U.S. businesses from 1997 to 2023. Infogroup's data includes key fields such as business name, location, industry, and employment count. The information is compiled from various sources, such as local yellow pages, phone verification, news publications, and annual reports. Various studies have used employment data from Data Axle (Michaels et al., 2019; Ghent, 2021; Pan et al., 2022).

To focus on publicly traded companies, we filter the dataset using company tickers. For each company, we aggregate the data from the establishment level to the state level, allowing us to conduct empirical analyses at the firm-state-year level. We then integrate this employment data with firm characteristics from Compustat and stock returns from CRSP. We focus on common stocks traded on major stock exchanges, specifically NYSE, AMEX, and NASDAQ, and firms headquartered in the United States.

Next, to examine the influence of CEO-governor political alignment on firms' internal labor allocation, we manually compile a dataset of CEO political donations. Specifically, we match executive names from ExecuComp with individual political contribution records from the Federal Election Committee (FEC). Section 2.2 provides a detailed explanation of the

matching process and how we infer the political leaning of CEOs of public companies from their donation records.

To determine the political affiliation of U.S. state governors, we developed Python code to collect public information from the National Governors Association (NGA) website. We compiled a dataset of state governors, which includes details on governors' tenures, political parties, and other relevant attributes.[1] This allows us to analyze the political alignment between corporate CEOs and state governors. Figure A1 shows the political affiliation of U.S. state governors at four-year intervals, indicating each state's partisan leaning and whether it retained or changed its governing party.[2] Additionally, we supplement the data with gubernatorial election information gathered from Wikipedia, which provided insights into the election process beyond just the outcomes, including details on all candidates and voting specifics.[3] By calculating the margin of victory between winning and losing parties, we identified close elections, allowing us to capture plausibly exogenous variation in CEO-governor political alignment.

Further, we gather data on government subsidies received by public companies from Subsidy Tracker. Introduced by Good Jobs First, Subsidy Tracker compiles data on subsidy recipients from over 1,000 state, local, and federal economic development programs, along with other forms of financial assistance to businesses.[4] Given our paper's focus on the political alignment between firms and state governors, we only include state-level subsidies received by publicly traded companies. This information is then aggregated to the firm-state-year level, consistent with our main dataset.

Finally, we supplement the dataset with state-level demographic and economic variables, including GDP and population data from the U.S. Bureau of Economic Analysis (BEA)

[1]For example, see the list of current governors on the NGA website: https://www.nga.org/governors/.

[2]The vast majority of U.S. states (48 out of 50) hold gubernatorial elections every four years, with the exceptions of New Hampshire and Vermont, which have two-year terms. Therefore, showing political leanings at four-year intervals captures the party affiliation of each governor in nearly all states.

[3]For example, see the "Race summary" section of 2022 U.S. Gubernatorial Elections: https://en.wikipedia.org/wiki/2022_United_States_gubernatorial_elections.

[4]See https://subsidytracker.goodjobsfirst.org.

and unemployment rates from the U.S. Bureau of Labor Statistics (BLS). These state characteristics are used as controls in our empirical analyses. The final sample contains 1,954 companies covering the period from 1997 to 2023.

2.2 Measuring firm political leaning

To infer the political leaning of U.S. public companies, we analyze political donations made by corporate CEOs, following the literature (Hong and Kostovetsky, 2012; Wang, 2024). We begin with individual-level donation data from the Federal Election Committee (FEC), which provides details on the donor's name, employer, occupation, donation date, amount, and the recipient committee from 1980 to 2023. We then match this donation data with CEO information from the ExecuComp database. ExecuComp provides data on the top-earnings executives covered in the S&P 1500 index, including their full names and roles within the firm. We first match based on CEOs' first and last names, and then use other information to rule out incorrect matches. Specifically, we drop observations with inconsistent middle names (when available in both datasets) and filter out mismatched employer names through textual analysis. Given that employer information in the FEC dataset is self-reported, we use a fuzzy matching process: we preprocess employer names by removing punctuation, extra blank spaces, and common company suffixes, then compare the similarity of firm names in both datasets, discarding observations with a similarity score below 60%. Using the process described above, we identified 156,255 donation records made by 4,834 CEOs across 2,938 companies. This represents approximately 52% of CEOs and 72% of companies in the ExecuComp database, consistent with the literature (Rice, 2023).

Next, to infer the political leaning of a CEO, we classify the party affiliation of each donation based on the political action committee (PAC) receiving the money. To ensure accurate classification, we only use committees that are affiliated with a party. Most presidential, senate, house committees and party committees declare party affiliations. Other types of committees (e.g., super PACs) rarely declare affiliations. We then aggregate the

political donations made over the past ten years to infer the CEO's political leaning at any given time.[5] By focusing only on donations in the 10 years preceding the measurement, we avoid forward-looking bias and allow the political leaning of a CEO to vary over time. Consequently, a CEO is classified as a Democrat if more donations go to the Democratic party, a Republican if more donations are to the Republican party, and non-partisan if donations are equally distributed between two parties or to PACs without explicit party affiliations. Our results are robust when we classify CEOs' political ideology based on their lifetime contributions.

To validate the quality of our political leaning measure, we examine the top Republican and Democratic donors in our sample and assess whether these results align with anecdotal evidence. Table A1 lists the top 10 CEOs by total contributions to each party. For instance, Sheldon Aldelson, former CEO of Las Vegas Sand Corp, stands out as the most significant Republican donor and is often referred to as a "kingmaker" due to the scale and frequency of his contributions.[6] On the other hand, Jeffrey Katzenberg, former CEO of Dreamworks Animation Skg Inc, is the leading Democratic donor and is recognized as "one of Hollywood's premier political kingmakers and one of the Democratic Party's top national fund-raisers".[7] These examples illustrate the reliability of our inference method.

Overall, we document that firms tend to donate more to the Republican Party than to the Democratic Party, and they are also more likely to have Republican-leaning CEOs. As shown in Figure 1, over the past 40 years, 60% to 70% of CEO political donations have been directed toward Republicans. Similarly, approximately 60% of partisan CEOs lean toward the Republican party. These trends are consistent with the findings of Fos et al. (2022), providing additional support for the validity of our CEO political leaning measure.

[Insert Figure 1 here]

[5]For example, a CEO's political leaning in 2018 is inferred from donations made between 2009 and 2018.

[6]Schneider, Elena; Isenstadt, Alex. January 12, 2021. Sheldon Adelson's super PAC spending spree shaped GOP politics. *Politico*.

[7]Daunt, Tina; Masters, Kim. October 30, 2013. Jeffrey Katzenberg's Secret Call to Hillary Clinton: Hollywood's 2016 Support Assure. *The Hollywood Reporter*.

Basides, one might be concerned that a CEO is not the sole decision-maker within a company. To address this, we also collect political donations made by corporate executives covered in the ExecuComp database. Using similar matching procedures as described previously, we collect a total of 465,244 donation records (including CEO donations) made by 18,702 executives across 3,534 companies, spanning 87% of the companies in the ExecuComp database. We then aggregate the political affiliations of executives at the firm level. Specifically, an executive is classified as a Republican (or Democrat) if they donate more to the Republican (or Democratic) party than to the opposing party. A firm's executive team (including CEO) is considered Republican-leaning if it has a greater number of Republican executives than Democrats, and vice versa. Our results remain robust when using the political leanings of firm executives to measure firm partisanship.

2.3 Summary statistics

Table 1 provides summary statistics for the key variables used in the empirical analysis, with the unit of observation at the firm-state-year level. On average, firms employ 841 workers in a state they operate, with an employment growth rate of 4.83%. Political alignment between CEOs and governors is observed in 22% of observations. An average firm holds total assets valued at $46.7 billion, maintains a leverage ratio of 27%, and has a Tobin's Q of 1.92. Profitability averages 36%, while the cash holding ratio stands at 11%. For state characteristics, the mean unemployment rate is 5.67%, and the average GDP and population growth rates are 4.1% and 0.75%, respectively.

[Insert Table 1 here]

3 Political alignment and labor allocation

In this section, we study the effect of political alignment between CEOs and state governors on firms' internal labor allocation decisions. Specifically, we examine whether a firm is more

likely to increase employment in a state when their CEO is politically aligned with the state's governor. We also examine how this effect varies with the CEO's political polarization level, the broader polarization environment, as well as the dynamic effect within the election cycle. To address endogeneity concerns, we further focus on close gubernatorial elections, which help mitigate the possibility that the CEO-governor political alignment is endogenously formed due to the CEO's anticipation of expanding in a state. Finally, we conduct additional tests to ensure that the observed CEO-governor alignment does not simply reflect the match between the firm's industry and the governor's policy.

3.1 Baseline result

To estimate the impact of CEO-governor political alignment on firm internal labor allocation, we use the following regression specification:

$$\Delta logEmp_{i,s,t} = \alpha + \beta \times Align_{i,s,t} + Controls_{i,s,t-1} + \gamma_{i,s} + \eta_{i,t} + \theta_{s,t} + \epsilon_{i,s,t} \quad (1)$$

where $\Delta logEmp_{i,s,t}$ measures the employment growth of firm i in state s from year $t-1$ to year t. $Align_{i,s,t}$ indicates whether firm i CEO is politically aligned with state s governor in year t. The change in CEO-governor political alignment could originate from CEO turnover, state governor turnover, or a change in the political leaning of a CEO. We control for firm characteristics in year t-1, including total assets, leverage, Tobin's Q, cash holdings, and profitability, and state characteristics in year t-1, including unemployment rate, GDP growth, and population growth. $\gamma_{i,s}$, $\eta_{i,t}$, and $\theta_{s,t}$ represent firm $\times$ state, state $\times$ year, and firm $\times$ year fixed effects. We cluster standard errors by firm and by year.

[Insert Table 2 here]

Table 2 presents the regression result. The coefficient on $Align_{i,s,t}$ is positive and significant, suggesting that firms are more likely to increase employment in a state when their CEO is politically aligned with the state's governor. In column (1), we include firm $\times$ state FEs

to control for potential time-invariant differences in labor allocation across firm-state pairs. For example, we can rule out that a firm's political alignment with a state and its higher investment in that state are merely driven by geographic proximity of the firm's headquarter. We also include year fixed effects to control for the aggregate time trend. The coefficient point estimate of 0.0065 indicates that the employment growth rate is 0.65 percentage points higher when the CEO and state governor are politically aligned. For an average firm with a 1.7% employment growth rate in our sample, this effect translates into a substantial 38.2% increase, highlighting the economic importance of political alignment with state governors.

In Table 2 column (2), we further include firm × year FEs to control for any time-varying firm characteristics, both observed and unobserved. This specification helps address concerns that omitted firm-specific factors—such as changes in corporate strategy, management priorities, or business conditions—might be correlated with both CEO-governor political alignment and firm labor allocation across states. The main result continues to hold, suggesting that the effect of political alignment on labor allocation is not driven by unobserved firm characteristics.

In Table 2 column (3), we further include state × year FEs to control for any time-varying characteristics at the state level. For instance, the literature has shown that political uncertainty associated with gubernatorial elections has an impact on firm decisions (Jens, 2017; Atanassov et al., 2024). By including state × year fixed effects, we account for the direct consequences of gubernatorial elections on the labor market, such as economic impacts or changes in political uncertainty associated with the election. Even with the most stringent specification, the main result remains robust at the 1% significance level, suggesting that political alignment with local governors plays an important role in explaining firms' internal labor allocation.

3.2 Heterogeneity and dynamic effect

Next, we explore how the relationship between CEO-governor political alignment and employment growth varies with the CEO's political polarization level, their donation intensity, and the broader polarization environment. If the observed effect is indeed driven by partisanship, we would expect the impact of political alignment to be stronger among highly polarized CEOs, those who make more political donations, and in more recent years marked by heightened political polarization.

[Insert Table 3 here]

Table 3 examines these hypotheses. In columns (1) and (2), we classify CEOs as polarized if they donate exclusively to one political party, and as less polarized if they donate to both parties. The results show that the coefficient is significant only for the polarized group (column 1), but insignificant for the less polarized group (column 2). This indicates that firms led by more politically polarized CEOs experience a stronger political alignment effect.

We also examine whether the political alignment effect is influenced by the scale of political donations. In Table 3 columns (3) and (4), we divide the sample based on the median total donation amount, and find that the coefficient is significant for CEOs who make above-median donations (column 3), while insignificant for those who donate below the median (column 4). These findings are consistent with our prior expectations, reinforcing the idea that political alignment affect firms' internal labor allocation.

Next, we analyze if the effect is stronger in recent years as political polarization intensifies. Following Duchin et al. (2023), we split our sample into pre-2010 and post-2010 subsamples. Table 3 column (5) shows that the effect is insignificant in the pre-2010 period, while the main coefficient in column (6), for the post-2010 period, is significant at the 1% level and more than doubles the main coefficient in column (5). This result suggests that as political environment becomes more polarized, political factors become even more important for firms' internal labor allocation decisions.

Further, to better understand the precise timing of the effect, we examine the dynamic

impact of CEO-governor political alignment on firms' employment growth throughout the gubernatorial election cycle. Specifically, we estimate the following dynamic regression:

$$\Delta logEmp_{i,s,t} = \alpha + \sum_{\tau=1}^{4} \beta_\tau \times Align_{i,s,t} \times D_{s,\tau} + Controls_{i,s,t-1} + \gamma_{i,s} + \eta_{i,t} + \theta_{s,t} + \epsilon_{i,s,t} \quad (2)$$

where $D_{s,\tau}$ are dummy variables indicating whether year t falls within the 1st, 2nd, 3rd, or 4th year following a gubernatorial election. All other variables are defined the same as the main regression (Equation 1).

[Insert Table 4 here]

Table 4 presents the regression result. The effect is strongest in the second year following a gubernatorial election, indicating that it takes time for firms to adjust their labor allocation in response to political alignment with local governors. This delayed response suggests that firms may need time to assess the political environment and its implications before making significant changes to their labor strategies.

3.3 Close elections

Despite our stringent fixed effects, which account for both observed and unobserved time-varying firm and state characteristics, as well as time-invariant firm-state pairing effects, concerns about potential endogeneity may still arise. For example, CEOs could donate to the party of a state governor or a candidate expected to win before planning to expand their operations in that state. In this case, CEO-governor political alignment may be endogenously formed and vary over time, introducing firm-state-year-level variation that is not fully absorbed by our fixed effects.

To address this issue, we focus on close gubernatorial elections as a source of exogenous variation in CEO-governor political alignment. Following Babenko et al. (2020), we define a close election as one where the margin of victory between the winning and losing candidates

is less than 5%.[8] We further restrict our analysis to the two years before and after these elections on each side. Given the small margin of victory, changes in CEO-governor political alignment stemming from close elections should be plausibly exogenous.

[Insert Table 5 here]

Table 5 presents the relationship between CEO-governor political alignment and firms' state-level employment growth around close gubernatorial elections. Although the coefficient on $Align_{i,s,t}$ is insignificant in column (1), it becomes significant in column (2) after including additional fixed effects , which control for unobserved firm characteristics. The coefficient remains significant at the 1% level in column (3), which presents the strongest specification. This finding suggests that our results are not driven by endogenous matching between the political leanings of CEOs and governors, indicating that partisanship indeed influences firms' internal labor allocation decisions.

3.4 Industry-governor alignment

One remaining concern is that the observed CEO-governor political alignment simply reflects the match between the firm's industry and the governor's policy. Namely, if Republican (Democratic) CEOs are more likely to work in industries that benefit more from policies of Republican (Democratic) governors, the CEO-governor political alignment would be highly correlated with industry-governor alignment. As a result, the effect we document may simply be due to firms benefiting from state policies regardless of the political ideology of firm CEOs.

To address this concern, we control for industry-governor political alignment by including industry × state × year fixed effects in the main regression. This approach allows us to isolate the political alignment effect between CEOs and state governors within each industry for each state in each year. We consider industries based on the Fama-French 49 classification or the 2- or 3-digit NAICS industry codes. The regression results, reported in Table 6, show

[8] In section 6, we show that our result is robust to using 2.5% as a more stringent definition of close elections.

that the coefficient on *Align* increases to 0.75-0.77 percentage points and remains highly significant at the 1% level. This finding indicates that political alignment between CEOs and governors continues to influence firms' labor allocation decisions, even after controlling for the broader industry-governor alignment effect.

[Insert Table 6 here]

Taken together, the results in this section show that firms are more likely to increase employment in a state when their CEO's political leaning aligns with that of the state's governor. This relationship remain robust even under stringent empirical specifications that account for all time-varying firm fundamentals, state-level characteristics, and firm-state pairing effects. The effect is stronger among more polarized firms, CEOs who make more political donations, and in more recent years as political polarization intensifies. It is more pronounced in the second year following gubernatorial elections, reflecting the time required for labor allocation adjustments. To address potential endogeneity concerns, we focus on close gubernatorial elections, which provide plausibly exogenous variation in CEO-governor political alignment, and find that the results continue to hold. Additionally, the observed effect cannot be attributed solely to the alignment between the firm's industry and the governor's policy. These findings suggest that political alignment with local governors plays an important role in explaining firms' labor allocation decisions.

4 Mechanism

So far, our empirical analyses provide robust evidence that firms have higher employment growth in states where their CEOs are politically aligned with the governor. We now turn to exploring the underlying economic mechanisms driving this pattern. Specifically, we aim to distinguish between two potential explanations.

The first mechanism suggests that CEOs may be more optimistic about state-level policies or local economic conditions when they are politically aligned with the governor. For

example, CEOs may choose to expand in a state because they anticipate favorable policies such as reduced taxation, lighter regulatory burdens, or increased access to subsidies. Political alignment may also boost CEOs' confidence in the state's economic outlook, leading them to expand in anticipation of stronger future demands. The second mechanism posits that CEOs may simply have personal preferences toward politically aligned governors, which could influence their decision-making independent of economic fundamentals. These preferences might stem from a desire to support governors with shared ideological values or greater trust in aligned individuals. As a result, CEOs may favor aligned states even when doing so does not offer clear economic advantages.

To disentangle these channels, we examine variation in the political alignment effect across industries. If the first mechanism holds, we would expect the impact of political alignment to be more pronounced in partisan-sensitive industries—those where party platforms diverge significantly. For instance, the energy sector has traditionally received stronger support from the Republican Party, which often advocates for deregulation and reduced environmental restrictions. Thus, a Republican-leaning CEO of an oil and gas company might hire more workers in red states to take advantage of the favorable regulatory environment. Conversely, the renewable energy sector typically receives more support from the Democratic party. Consequently, a Democratic-leaning CEO of an electric vehicle company may be more optimistic about policies like tax credits and subsidies from blue states, which could lead to higher employment growth in blue states. In contrast, under the second mechanism driven purely by political preferences, the effect should be consistent across industries, as decisions are not based on policy expectations but on ideological alignment alone.

Identifying partisan-sensitive industries is empirically challenging due to data limitations. To address this, we measure an industry's partisan sensitivity by analyzing its stock market responses to the 2016 and 2020 presidential elections. Specifically, we examine weekly stock returns around each election to determine whether an industry benefits from a particular party's governance. We then rank industries based on their returns, and compare the change

in rankings between the two elections. Since the presidency switched parties, an industry sensitive to partisan policies should show opposite responses to the two elections, leading to large ranking changes. For example, as shown in Figure 2, among Fama-French 49 industries, the "coal" industry, which benefits from Republican governance, was ranked 12th during the 2016 election but dropped to 46th in 2020—a change of 34 positions. Conversely, the "software" industry, which benefits from Democratic governance, was ranked 39th in 2016 but improved to 7th in 2020, a change of 32 positions. Thus, the change in rankings between the two elections captures the sensitivity of an industry to the political party of the government, with greater sensitivity indicated by larger ranking shifts.

[Insert Figure 2 here]

Figure A2 shows the partisan sensitivity of each Fama-French 49 industry, based on changes in their stock market ranking responses to the 2016 and 2020 presidential elections. We define industries as partisan-sensitive if their ranking change between the two elections exceeds the median threshold of 10 positions, while those with below-median changes are classified as partisan-insensitive.[9] We then rerun the main regression separately for these two groups, and present the results in Table 7. For partisan-sensitive industries, the coefficient on *Align* ranges from 0.0096 to 0.0113 and is significant at the 1% level in the strongest specification (column 3). In contrast, the coefficient for partisan-insensitive industries is much smaller and statistically insignificant. These results are more consistent with the first hypothesis that firms' beliefs about local policies and economic conditions play an important role in driving increased employment in politically aligned states.

[Insert Table 7 here]

Next, we provide some suggestive evidence of where the optimism behind firms' expansion in politically aligned states might come from. Specifically, we examine two non-mutually-exclusive possibilities: 1) local policies that directly benefit and incentivize firms to expand

[9]Table A1 provides a complete list of partisan-sensitive industries and partisan-insensitive industries with their respective ranking changes between the 2016 and 2020 presidential elections.

in the local area; and 2) local economic conditions that raise expectations of future demand. To distinguish between these explanations, we examine the impact on tradable and non-tradable industries separately. Non-tradable industries (e.g. restaurants) depend heavily on local demand, while tradable industries (e.g. manufacturing) can sell goods both inside and outside the state and are less tied to local demand. Thus, the idea is that if the optimism is mainly driven by expectations of stronger local demand due to better economic conditions, we should see the effect concentrated in non-tradable industries. However, if the expansion is due to favorable local policies, which can benefit tradable and non-tradable industries, we would expect to see effects in both groups of companies.

We run our baseline regressions for tradable and non-tradable industries separately and report the results in Table A3. The coefficient on *Align* is positive and statistically significant in both cases, suggesting that firms' optimism about future expansion in politically aligned states is not solely driven by expectations of stronger local demand. While local economic conditions could still play a role, the fact that the effect is present in tradable industries whose performance is less tied to local demand suggests that expectations of favorable local policies are also an important driver.

To provide more direct evidence of the policy channel, we focus on government subsidies as a specific example of local policies. Specifically, we collect data on state-level subsidies received by each company and analyze whether companies are more likely to receive subsidies from politically-aligned states. The results, presented in Table A4, confirm our hypothesis that aligned companies are more likely to receive government subsidies. The coefficient on *Align* is positive and significant in most specifications. While it is marginally insignificant in column (3)—likely because state $\times$ year fixed effects explain much of the variation in subsidies—the coefficient remains large and positive across all models. This provides suggestive evidence that politically-aligned firms are more likely to receive favorable state policies, which in turn may lead to increased hiring activities.

[Insert Table A4 here]

Taken together, this section indicates that firms' higher employment growth in politically aligned states is not simply due to CEOs' personal political preferences. Instead, it appears to be driven by greater optimism among politically aligned CEOs, likely stemming from expectations of favorable local policies or stronger local economic conditions.

5 Value implication

So far, we have shown that firms increase employment in states where the CEO and the governor are politically aligned. In this section, we examine how this alignment-driven labor allocation affects firm value.

Conceptually, the value implication of the political alignment effect is unclear. On one hand, if CEOs' labor allocation decisions are based on rational expectations about state-level policies or economic conditions, politically-driven labor allocation should not negatively impact firm value. On the other hand, if these decisions are driven by CEOs' irrational expectations, it could have negative consequences for firm value. For example, CEOs may be overly optimistic about future policies and economic conditions in politically aligned states, leading to suboptimal resource allocation and reduced firm performance.

To study the value implication of politically-driven labor allocation, we first identify whether a company increases employment more in politically aligned states than in misaligned states. We then examine whether firms exhibiting such partisan allocation are associated with different subsequent stock returns. Specifically, we aggregate the data from the firm-state-year level to the firm-year level, and construct the following measure to capture the tendency of partisan allocation for firm i in year t:

$$Partisan\ Allocation_{i,t} = \mathbb{1}(\sum_{s=1}^{n} \Delta Emp_{s,i,t} \times Align_{s,i,t} - \sum_{s=1}^{n} \Delta Emp_{s,i,t} \times Misalign_{s,i,t}), \quad (3)$$

where $\Delta Emp_{s,i,t}$ is the change in employment for firm i in state s from year $t-1$ to t, and $Align_{s,i,t}$ ($Misalign_{s,i,t}$) is set to 1 if the CEO of firm i is politically aligned

(misaligned) with the governor of state s in year t. For a firm operating across n states in year t, $Partisan\ Allocation_{i,t}$ takes the value of 1 if the firm increases employment more in politically aligned states than in misaligned states, and 0 otherwise. Thus, the measure captures the firm's tendency toward partisan allocation.

Next, to estimate the impact of partisan labor allocation on subsequent stock returns, we run the following firm-level panel regression:

$$Return_{i,t+1} = \alpha + \beta Partisan\ Allocation_{i,t} + Controls_{i,t} + \gamma_i + \eta_t + \epsilon_{i,t}, \tag{4}$$

where $Return_{i,t+1}$ denotes the annual stock return of firm i in year $t+1$. All independent variables are measured in year t, and γ_i and η_t represent firm and year fixed effects. We cluster standard errors by firm and by year.

[Insert Table 8 here]

Table 8 reports the regression results. In column (1), we include all firm-level controls used in the main regression (Equation 1), namely firm size, leverage, Tobin's Q, cash holding, and profitability. We also include firm and year fixed effects to control for unobserved, time-invariant firm characteristics and the aggregate time trend. The coefficient on *Partisan Allocation* is -0.0132 with a t-statistics of -3.03, indicating that firms expanding employment more in politically aligned states experience 1.32 percentage points lower stock return in the following year. To mitigate the concern that *Partisan Allocation* could simply reflect firms' overall expansion, we further include firm-level employment growth and capital expenditure as additional controls in Table 8 column (2). The coefficient remains similar at -0.0146 with a t-statistics of -2.91, again suggesting that politically-driven labor allocation decreases firm value.

Since labor allocation driven by CEO-governor political alignment is associated with lower firm value, the political alignment effect should be stronger in firms with poor corporate governance. Firms with strong governance typically constrain managerial discretion and

help align managerial actions with shareholder interests. In contrast, poor governance allows CEOs greater leeway, potentially leading to value-destroying decisions. To test this hypothesis, we use corporate governance scores from Morningstar Sustainalytics, which assesses firms' environmental, social, and governance performance based on key ESG activities, and then applies weighted core and sector-specific metrics to produce an overall score for each dimension. Sustainalytics scores are commonly used by practitioners and widely adopted in academic research (Kim and Yoon, 2023; Hartzmark and Sussman, 2019).[10]

Focusing on the corporate governance dimension, we examine whether the relationship between CEO-governor political alignment and state-level employment growth is stronger among firms with poor governance. Specifically, we define *Poor governance* as an indicator equal to one if a firm has a below-median corporate governance score, and zero otherwise, and interact this variable with *Align*. Table 9 presents the regression results. The coefficient on *Align* is small and statistically insignificant, suggesting that political alignment has little effect on employment growth for firms with strong governance. However, the coefficient on *Align* × *Poor governance* is significantly larger in magnitude and statistically significant at the 5% level, indicating that poor corporate governance exacerbates politically driven labor allocation. This finding aligns with our hypothesis.

[Insert Table 9 here]

To determine whether governance, rather than broader ESG factors, drives the effect, we repeat the analysis using firms' environmental and social (ES) ratings. Unlike governance, ES ratings reflect practices less directly tied to managerial oversight and internal control. If the political alignment effect stems specifically from weak governance, we should not observe a similar pattern with ES ratings. We calculate each firm's ES score as the average of its Sustainalytics environmental and social scores, and define *Poor ES* as a dummy equal to

[10]Morningstar Sustainalytics ESG score data are available from 2009 to 2019, as Sustainalytics adopted a new risk-based rating methodology after 2019. To maintain consistency with our main sample period,we use the 2019 corporate governance score for all subsequent years (2020-2023). In Table A5, we show that our results remain robust when limiting the analysis to 2009-2019, the period for which annual governance scores are available.

one if the ES score is at or below median. We then repeat the previous analysis, and report the results in Table A6. The coefficient on $Align \times PoorES$ is statistically insignificant, suggesting that the political alignment effect is not driven by broader ESG performance, but is specific to the governance dimension.

Taken together, results in this section suggest that labor allocation driven by political alignment between CEOs and state governors may not serve the best interests of shareholders. Firms exhibiting partisan allocation behavior experience lower subsequent stock returns, and the political alignment effect is more pronounced among firms with poor corporate governance. These findings are inconsistent with the view that CEOs hold rational expectations about state policies or economic conditions. Instead, they suggest that politically aligned CEOs may be overly optimistic, leading to value-decreasing investment decisions.

6 Additional results

In this section, we present several additional tests to further validate our findings. First, we introduce an alternative measure of a firm's political leaning. While the main analysis uses the CEO's partisanship as a proxy for the company's political stance, one might be concerned that the CEO is not the sole decision-maker in the firm. To address this concern, we collect political donations made by corporate executives covered in ExecuComp, and use the collective political leaning of the executive team as a proxy for the firm's political leaning. Specifically, we infer each executive's partisanship based on their donations over the past ten years, following the same approach used to determine the CEO's partisanship. We then aggregate these individual leanings at the firm level. A firm's executive team is classified as Republican-leaning if it has more Republican executives than Democrats, and vice versa.

We then define a variable $Executive\ Gov\ Align_{i,s,t}$ to indicate whether firm i's executive team is politically aligned with the governor of state s in year t, and rerun the main regression from Equation 1. The results, displayed in Table 10, show that the key coefficient is positive and statistically significant at the 5% level or better across all specifications. This suggests

that our findings remain robust when using the political alignment of the entire executive team, rather than just the CEO, to measure alignment with state governors.

[Insert Table 10 here]

Next, we consider several alternative specifications of the main result. In prior analyses, we include partisan, non-partisan, and non-donor CEOs in the sample. As noted by Rice (2023), the advantage of including non-partisan and non-donor CEOs is that, for firm-year observations where the CEO does not lean toward either political party, these cases help create a more continuous sample, leading to more precise coefficient estimates. However, one might be concerned that it complicates the direct comparison between politically aligned and misaligned CEOs. To address this, we restrict the sample to partisan CEOs only—those classified as either Republican or Democrat—to facilitate a direct comparison. As shown in Table 11 column (1), our main finding remains consistent. Firms with CEOs politically aligned with state governors are more likely to expand in those states compared to politically misaligned companies, providing a clearer picture of the political alignment effect.

[Insert Table 11 here]

We also examine the effect of using the the full donation history of firm CEOs. In the main analysis, we use each CEO's 10-year donation history to infer their political leaning at any given point in time. This approach allows partisanship to vary over time and, more importantly, avoids forward-looking bias in the measurement of a firm's political leaning. By doing so, we minimize the possibility of reverse causality—i.e., firms donating to the governor's party only after expanding in the state to gain benefits. However, one might argue that a CEO's political leaning tends to remain stable over time, and that using a longer donation history could improve the accuracy of this measurement. Therefore, in the next test, we use the full donation history of CEOs to construct a time-invariant measure of CEOs political leanings. The regression result, shown in Table 11 column (2), confirms that our result is robust when using the complete donation history to infer political leanings.

Moreover, to capture varying degrees of political polarization, we construct a continuous

measure of CEO-governor political alignment. Following Lee et al. (2014), we measure each CEO's political leaning as the difference between their donations to Republican and Democratic committees divided by the total donations made to both Republican and Democratic committees:

$$Party_{i,t} = \frac{R_{i,t} - D_{i,t}}{R_{i,t} + D_{i,t}}, \tag{5}$$

where the measure ranges from -1 to 1. A positive value indicates a Republican-leaning CEO, while a negative value indicates a Democratic-leaning CEO. Non-partisan individuals or non-donors are assigned a value of 0. A governor's political affiliation is coded as 1 for Republicans and -1 for Democrats. We define the continuous political alignment measure as the interaction of $Party_{i,t}$ and the governor's political leaning. As presented in Table 11 column (3), the main finding remains when using this continuous measure of political alignment.

Additionally, there might be concerns that the result could be driven solely by firms expanding or shrinking at their headquarters. To address these issues, we conduct a test that excludes the state where each firm's headquarters is located from the regression analysis. As reported in Table 11 column (4), the main result continues to hold, suggesting that the political alignment effect is not driven by corporate headquarters or firms that only operate in a single state.

Furthermore, we consider an alternative definition of close elections. In the main analysis, we use a 5% margin to define close elections, which is already a reasonably tight threshold compared to related studies. For instance, Jens (2017) defines a close election as one where the margin of victory falls within the lowest tercile, with a cutoff of 7.1%. Nonetheless, as a robustness check, we test our results using an even tighter definition of a close election—2.5%. With such a tight threshold, the election outcome should be even more difficult to predict ex-ante, hence providing a setting with more exogenous variations of CEO-governor political alignment. The results are shown in Table 11 column (5). Although this restriction further reduces the number of observations in the regression, our main finding remains consistent.

Finally, we examine whether the political alignment effect is different for Democratic and

Republican alignments. To do so, we interact the key independent variable, *Align*, with indicator variables for Democrats and Republicans. Specifically, we create two interaction terms: $Align \times Dem$, which equals 1 if both the CEO and the governor are Democrats; and $Align \times Rep$, which equals 1 if both are Republicans. We replace *Align* in Equation 1 with these two interaction terms, allowing us to estimate the effect of political alignment on employment growth separately for Democratic and Republican pairs. As shown in Table A7, the estimated effects are quantitatively similar across both groups, suggesting that the political alignment effect is not driven by any single party.

In summary, this section reinforces our findings through a series of additional tests. We show that our main result remains robust when using a broader measure of political alignment based on the collective donations of corporate executives rather than focusing solely on CEOs. The findings also hold when we limit the sample to partisan CEOs, employ a full donation history, exclude headquarters from the analysis, and redefine close elections. Moreover, the effect is not driven by a single political party. Together, these tests consistently support the robustness of our results.

7 Conclusion

In this paper, we examine how political alignment between CEOs and state governors influences firms' internal labor allocation decisions. Our findings indicate that when a CEO and a governor share the same political leaning, firms see a 0.65 percentage point higher employment growth in the corresponding state—a significant 38.2% increase over the average employment growth rate. This effect is more pronounced in firms with higher political polarization and in recent years. Using close gubernatorial elections as a plausibly exogenous variation in CEO-governor political alignment, we further mitigate concerns about omitted variable bias. Our results remain robust by comparing firms operating in the industry and in the same state, but led by CEOs with different political ideologies.

We also explore the potential channel behind this effect. Our analysis shows that CEOs'

perceptions of state economic policies might plays an important role. Specifically, firms in industries more sensitive to partisan policies see greater employment growth in aligned states. Additionally, politically aligned firms are more likely to receive state-level government subsidies, directly supporting the hypothesis that alignment with the governor leads to more favorable policy outcomes, which in turn stimulates hiring. Finally, political alignment driven labor allocation appears to be value decreasing action as firms have lower stock returns following significant employment expansion in politically aligned states.

Overall, this paper highlights the importance of political factors in shaping corporate decision-making. By highlighting the role of political alignment in firms' labor allocation decisions, we contribute to the literature that traditionally emphasizes efficiency and investment opportunities as primary determinants of resource allocation within firms. Our study suggests that external political considerations can be a crucial yet underappreciated factor in understanding firms' internal resource allocation.

References

Acharya, V. V., Bhardwaj, A. and Tomunen, T. (2023). Do firms mitigate climate impact on employment? evidence from us heat shocks, *Working Paper* .

Atanassov, J., Julio, B. and Leng, T. (2024). The bright side of political uncertainty: The case of r&d, *The Review of Financial Studies* **37**(10): 2937–2970.

Ayyagari, M., Gao, J. and Ma, P. (2025). Partisan friendshoring, *Technical report*, Working Paper.

Babenko, I., Fedaseyeu, V. and Zhang, S. (2020). Do ceos affect employees' political choices?, *The Review of Financial Studies* **33**(4): 1781–1817.

Barkai, S. and Karger, E. (2020). Classifying industries into tradable/nontradable via geographic radius served, *Working paper* .

Chen, Z., Cihan, M., Jens, C. E. and Page, T. B. (2023). Political uncertainty and firm investment: Project-level evidence from m&a activity, *Journal of Financial and Quantitative Analysis* **58**(1): 71–103.

Çolak, G., Durnev, A. and Qian, Y. (2017). Political uncertainty and ipo activity: Evidence from us gubernatorial elections, *Journal of Financial and Quantitative Analysis* **52**(6): 2523–2564.

Colonnelli, E., Neto, V. P. and Teso, E. (2022). Politics at work, *Working Paper* .

Di Giuli, A. and Kostovetsky, L. (2014). Are red or blue companies more likely to go green? politics and corporate social responsibility, *Journal of Financial Economics* **111**(1): 158–180.

Duchin, R., Farroukh, A. E. K., Harford, J. and Patel, T. (2023). The economic effects of political polarization: Evidence from the real asset market, *Working paper* .

Engelberg, J., Guzman, J., Lu, R. and Mullins, W. (forthcoming). Partisan entrepreneurship, *Journal of Finance* .

Fos, V., Kempf, E. and Tsoutsoura, M. (2022). The political polarization of corporate america, *Working Paper* .

Ghent, A. C. (2021). What's wrong with pittsburgh? delegated investors and liquidity concentration, *Journal of Financial Economics* **139**(2): 337–358.

Giroud, X. and Mueller, H. M. (2015). Capital and labor reallocation within firms, *The Journal of Finance* **70**(4): 1767–1804.

Hartzmark, S. M. and Sussman, A. B. (2019). Do investors value sustainability? a natural experiment examining ranking and fund flows, *The Journal of Finance* **74**(6): 2789–2837.

Hong, H. and Kostovetsky, L. (2012). Red and blue investing: Values and finance, *Journal of Financial Economics* **103**(1): 1–19.

Hutton, I., Jiang, D. and Kumar, A. (2014). Corporate policies of republican managers, *Journal of Financial and Quantitative Analysis* **49**(5-6): 1279–1310.

Hutton, I., Jiang, D. and Kumar, A. (2015). Political values, culture, and corporate litigation, *Management Science* **61**(12): 2905–2925.

Jens, C. E. (2017). Political uncertainty and investment: Causal evidence from us gubernatorial elections, *Journal of Financial Economics* **124**(3): 563–579.

Kempf, E., Luo, M., Schäfer, L. and Tsoutsoura, M. (2023). Political ideology and international capital allocation, *Journal of Financial Economics* **148**(2): 150–173.

Kempf, E. and Tsoutsoura, M. (2024). Political polarization and finance, *Working Paper* .

Kim, S. and Yoon, A. (2023). Analyzing active fund managers' commitment to esg: Evidence from the united nations principles for responsible investment, *Management science* **69**(2): 741–758.

Lee, J., Lee, K. J. and Nagarajan, N. J. (2014). Birds of a feather: Value implications of political alignment between top management and directors, *Journal of Financial Economics* **112**(2): 232–250.

Michaels, R., Beau Page, T. and Whited, T. M. (2019). Labor and capital dynamics under financing frictions, *Review of Finance* **23**(2): 279–323.

Pan, Y., Pikulina, E. S., Siegel, S. and Wang, T. Y. (2022). Do equity markets care about income inequality? evidence from pay ratio disclosure, *The Journal of Finance* **77**(2): 1371–1411.

Rice, A. B. (2023). Executive partisanship and corporate investment, *Journal of Financial and Quantitative Analysis* pp. 1–30.

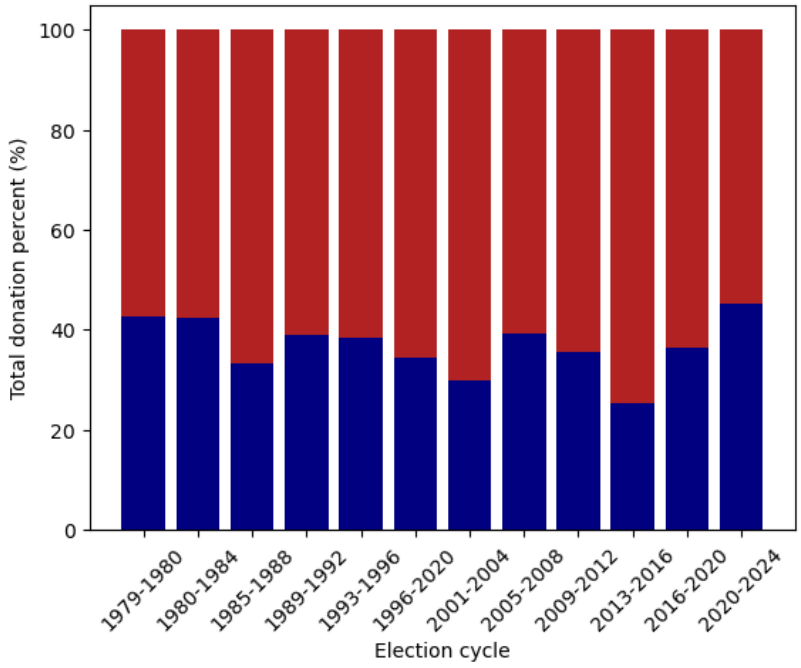
Tate, G. and Yang, L. (2015). The bright side of corporate diversification: Evidence from internal labor markets, *The Review of Financial Studies* **28**(8): 2203–2249.

Wang, W. (2024). Does partisanship affect mutual fund information processing? evidence from textual analysis on earnings calls, *Working paper* .

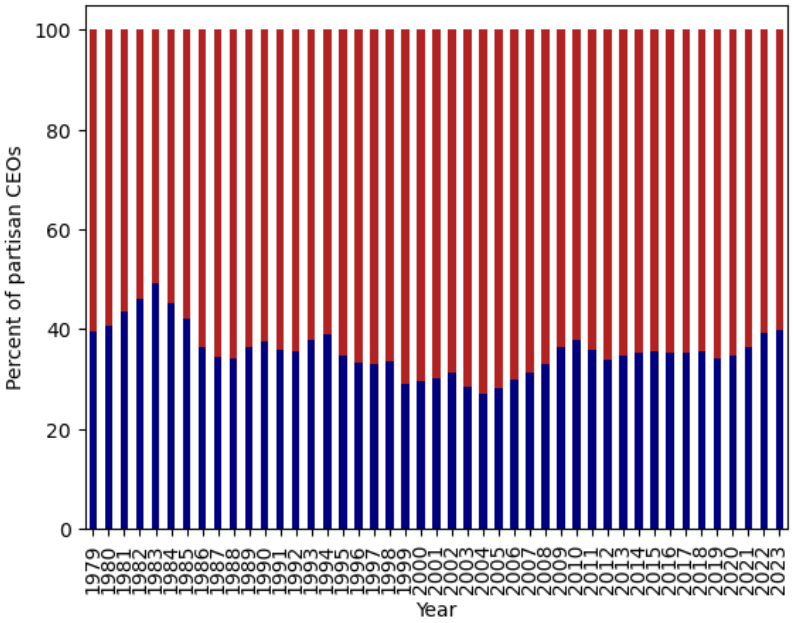
Zeng, L. (2020). Competition for talent: The impact of venture capital investments on incumbent firms, *Working paper* .

Figure 1: Political donation and CEO distribution by party affiliation

This figure plots the distribution of political donations and partisan CEOs over time. Panel (a) presents the proportion of CEO donation amounts by party affiliation for each election cycle. Panel (b) shows the proportion of partisan CEOs for each year. In both panels, red represents the Republican Party, and blue represents the Democratic Party.



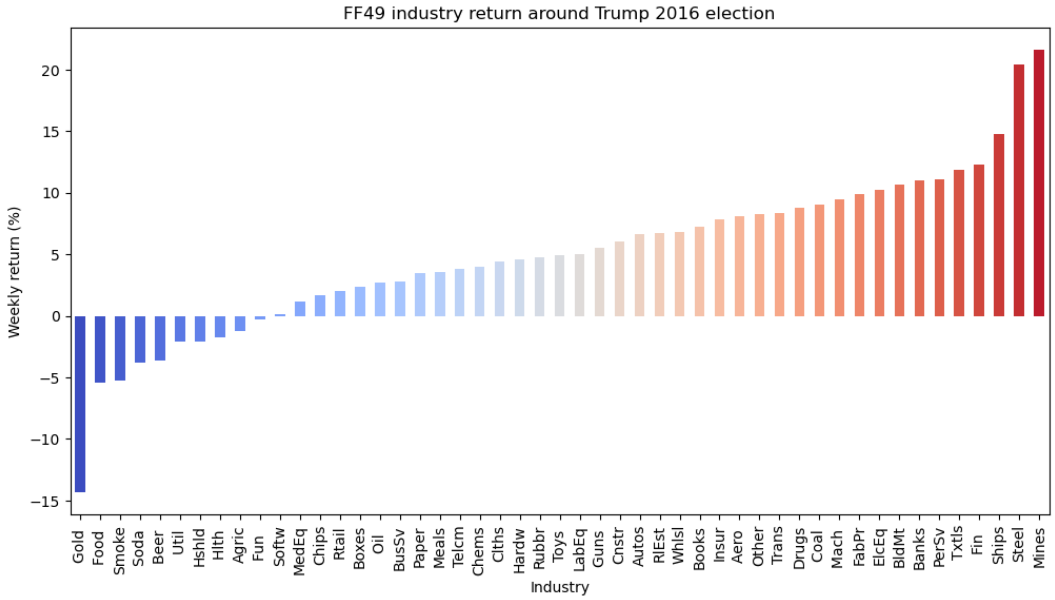
(a) Donation percent by party



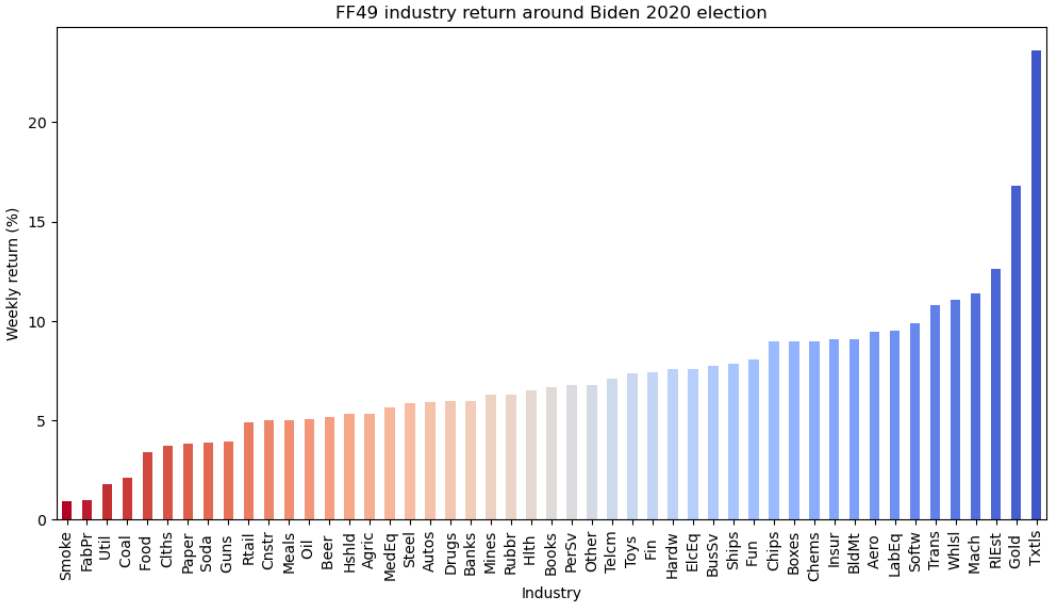
(b) Partisan CEO percent by party

Figure 2: Industry return around presidential election

This figure displays the stock returns for each of the Fama-French 49 industries during the week surrounding the 2016 and 2020 presidential elections (i.e., from three days before to three days after the election). Panel (a) focuses on the 2016 election. Since the Republican party won in 2016, industries that benefited the most (as reflected by higher returns) are highlighted in red, while those that benefited the least are shown in blue. Panel (b) shows the 2020 election, where the Democratic party won. Accordingly, industries that benefited the most from the Democratic victory are shown in blue, while those that benefited the least are in red.



(a)



(b)

Table 1: Summary Statistics

This table presents the summary statistics of key variables used in the empirical analyses. Please see the appendix for detailed variable definitions.

	Count	Mean	Median	STD
Employee	453,218	841.3	135	3050.1
Log(Emp)	453,218	4.83	4.91	2.04
ΔLog(Emp)	453,218	0.017	0	0.50
Log(1+Subsidy)	453,218	0.27	0	1.82
CEO-gov align	453,218	0.22	0	0.42
Total asset ($Bil)	453,211	46.69	5.37	197.39
Leverage	452,731	0.27	0.24	0.20
Tobin's Q	453,203	1.92	1.55	1.14
Profitability	453,186	0.36	0.30	0.26
Cash	453,205	0.11	0.070	0.11
%Unemployment	453,218	5.67	5.20	2.07
GDP growth	453,218	0.041	0.041	0.032
Population growth	453,218	0.0075	0.0066	0.0065

Table 2: CEO-governor political alignment and employment growth

This table presents the relationship between CEO-governor political alignment and state-level employment growth. The dependent variable, $\Delta logEmp_{i,s,t}$, measures the employment growth of firm i in state s from year t-1 to t. The independent variable, $Align_{i,s,t}$, is an indicator of whether firm i CEO is politically aligned with state s governor in year t. Control variables include firm size, leverage, Tobin's Q, cash holding, profitability, and state-level unemployment rate, log GDP growth, and log population growth in year t-1. Standard errors are clustered by firm and by year. T-statistics are reported in parentheses. *, **, *** indicate significance at the 10%, 5%, and 1% level, respectively.

	(1)	(2)	(3)
Align	0.0065**	0.0059***	0.0061***
	(2.18)	(2.84)	(3.21)
Log(Total asset)	0.0044		
	(0.63)		
Leverage	-0.0149		
	(-0.77)		
Tobin's Q	0.0033		
	(1.21)		
Cash	-0.0421		
	(-1.33)		
Profitability	0.1846***		
	(7.38)		
%Unemployment	-0.0014	-0.0018	
	(-0.87)	(-1.58)	
GDP growth	0.0394	0.0199	
	(0.95)	(0.52)	
Population growth	0.0747	0.0987	
	(0.25)	(0.42)	
Firm × State FE	✓	✓	✓
Year FE	✓		
Firm × Year FE		✓	✓
State × Year FE			✓
R^2	0.067	0.242	0.245
Observations	453,218	450,550	450,550

Table 3: Subsample analysis

This table presents the relationship between CEO-governor political alignment and state-level employment growth for different subsamples. Column (1)-(2) present the results for polarized vs. less polarized CEOs. Polarized CEOs are CEOs who make positive donations to one party and 0 to the other party. Less-polarized CEOs are CEOs who donate money to both parties. Column (3)-(4) present the results for CEOs who make above- vs. below-median total donation amounts. Column (5)-(6) present the results for the pre-2010 and post-2010 periods. The dependent variable, $\Delta logEmp_{i,s,t}$, measures the employment growth of firm i in state s from year t-1 to t. The independent variable, $Align_{i,s,t}$, is an indicator of whether firm i CEO is politically aligned with state s governor in year t. Control variables include firm size, leverage, Tobin's Q, cash holding, profitability, and state-level unemployment rate, log GDP growth, and log population growth in year t-1. Standard errors are clustered by firm and by year. T statistics are reported in parentheses. *, **, *** indicate significance at the 10%, 5%, and 1% level, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
	Polarized	Less polarized	More donation	Less donation	Pre 2010	Post 2010
Align	0.0084***	0.0051	0.0068**	0.0029	0.0033	0.0075***
	(4.64)	(1.28)	(2.16)	(0.62)	(0.79)	(5.85)
Controls	✓	✓	✓	✓	✓	✓
Firm × State FE	✓	✓	✓	✓	✓	✓
Firm × Year FE	✓	✓	✓	✓	✓	✓
State × Year FE	✓	✓	✓	✓	✓	✓
R^2	0.322	0.280	0.282	0.305	0.250	0.285
Observations	99,021	95,457	127,319	116,970	157,798	288,905

Table 4: Dynamic effect over election cycle

This table presents the dynamic relationship between CEO-governor political alignment and state-level employment growth over the gubernatorial election cycle. The dependent variable, $\Delta logEmp_{i,s,t}$, measures the employment growth of firm i in state s from year t-1 to t. The independent variable, $Align_{i,s,t}$, is an indicator of whether firm i CEO is politically aligned with state s governor in year t. Year 1, Year 2, Year 3, and Year 4 indicate the 1st, 2nd, 3rd, and 4th year after each gubernatorial election. Control variables include firm size, leverage, Tobin's Q, cash holding, profitability, and state-level unemployment rate, log GDP growth, and log population growth in year t-1. Standard errors are clustered by firm and by year. T-statistics are reported in parentheses. *, **, *** indicate significance at the 10%, 5%, and 1% level, respectively.

	(1)	(2)	(3)
Align × Year 1	0.0020	0.0034	0.0056
	(0.50)	(0.92)	(1.54)
Align × Year 2	0.0098**	0.0115***	0.0097**
	(2.10)	(2.89)	(2.22)
Align × Year 3	0.0074*	0.0037	0.0045
	(1.93)	(0.93)	(1.12)
Align × Year 4	0.0066	0.0047	0.0046
	(1.52)	(1.39)	(1.07)
Controls	✓	✓	✓
Firm × State FE	✓	✓	✓
Year FE	✓		
Firm × Year FE		✓	✓
State × Year FE			✓
R^2	0.067	0.242	0.245
Observations	453,218	450,550	450,550

Table 5: Close elections

This table presents the relationship between CEO-governor political alignment and state-level employment growth around close gubernatorial elections. We define a close election as one where the margin of victory between the winning and losing parties is less than 5%, and we focus only on the two years before and after such elections on each side. The dependent variable, $\Delta logEmp_{i,s,t}$, measures the employment growth of firm i in state s from year t-1 to t. The independent variable, $Align_{i,s,t}$, is an indicator of whether firm i CEO is politically aligned with state s governor in year t. Control variables include firm size, leverage, Tobin's Q, cash holding, profitability, and state-level unemployment rate, log GDP growth, and log population growth in year t-1. Standard errors are clustered by firm and by year. T-statistics are reported in parentheses. *, **, *** indicate significance at the 10%, 5%, and 1% level, respectively.

	(1)	(2)	(3)
Align	0.0051	0.0129***	0.0133***
	(0.92)	(3.38)	(3.16)
Log(Total asset)	0.0064		
	(0.72)		
Leverage	-0.0020		
	(-0.07)		
Tobin's Q	0.0038		
	(1.16)		
Cash	-0.0544		
	(-1.27)		
Profitability	0.1738***		
	(5.63)		
%Unemployment	0.0020	0.0034	
	(0.54)	(1.01)	
GDP growth	0.1771	0.1620	
	(1.17)	(1.06)	
Population growth	-0.1223	0.1139	
	(-0.22)	(0.20)	
Firm × State FE	✓	✓	✓
Year FE	✓		
Firm × Year FE		✓	✓
State × Year FE			✓
R^2	0.153	0.416	0.419
Observations	111,983	107,117	107,117

Table 6: Industry-governor political alignment

This table presents the relationship between CEO-governor political alignment and state-level employment growth, after controlling for the industry-governor alignment effect. In column (1), industries are defined based on the Fama-French 49 classification. In columns (2) and (3), industries are based on 2- or 3-digit NAICS industry codes. The dependent variable, $\Delta logEmp_{i,s,t}$, measures the employment growth of firm i in state s from year t-1 to t. The independent variable, $Align_{i,s,t}$, is an indicator of whether firm i CEO is politically aligned with state s governor in year t. Control variables include firm size, leverage, Tobin's Q, cash holding, profitability, and state-level unemployment rate, log GDP growth, and log population growth in year t-1. Standard errors are clustered by firm and by year. T-statistics are reported in parentheses. *, **, *** indicate significance at the 10%, 5%, and 1% level, respectively.

	(1)	(2)	(3)
	Fama-French 49	2-digit NAICS	3-digit NAICS
Align	0.0075***	0.0075***	0.0077***
	(3.20)	(3.10)	(3.62)
Controls	✓	✓	✓
Firm × State FE	✓	✓	✓
Firm × Year FE	✓	✓	✓
Industry × State × Year FE	✓	✓	✓
R^2	0.331	0.291	0.367
Observations	441251	447208	427233

Table 7: Partisan-sensitive industries

This table presents the relationship between CEO-governor political alignment and state-level employment growth for partisan-sensitive and insensitive industries separately. To measure an industry's partisan sensitivity, we examine one-week stock returns around the 2016 and 2020 presidential elections for each Fama-French 49 industry, rank them based on returns, and compare the change in rankings between the two elections. Industries with ranking changes exceeding the median threshold of 10 positions are classified as partisan-sensitive, while those with smaller changes are considered partisan-insensitive. Column (1)-(3) present the results for partisan-sensitive industries, and column (4)-(6) show results for partisan-insensitive industries. The dependent variable, $\Delta logEmp_{i,s,t}$, measures the employment growth of firm i in state s from year t-1 to t. The independent variable, $Align_{i,s,t}$, is an indicator of whether firm i CEO is politically aligned with state s governor in year t. Control variables include firm size, leverage, Tobin's Q, cash holding, profitability, and state-level unemployment rate, log GDP growth, and log population growth in year t-1. Standard errors are clustered by firm and by year. T-statistics are reported in parentheses. *, **, *** indicate significance at the 10%, 5%, and 1% level, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
	Partisan-sensitive industries			Partisan-insensitive industries		
Align	0.0091**	0.0104***	0.0106***	0.0038	0.0015	0.0019
	(2.60)	(3.16)	(3.28)	(0.71)	(0.47)	(0.65)
Log(Total asset)	0.0119			-0.0022		
	(1.24)			(-0.26)		
Leverage	-0.0427*			0.0060		
	(-1.76)			(0.21)		
Tobin's Q	-0.0008			0.0062*		
	(-0.15)			(1.71)		
Cash	-0.0537			-0.0253		
	(-1.59)			(-0.53)		
Profitability	0.1908***			0.1810***		
	(4.29)			(5.24)		
%Unemployment	0.0005	0.0001		-0.0031*	-0.0035**	
	(0.28)	(0.07)		(-1.85)	(-2.36)	
GDP growth	0.1226	0.0757		-0.0357	-0.0244	
	(1.61)	(1.05)		(-0.84)	(-0.50)	
Population growth	-0.0928	-0.1569		0.2376	0.2926	
	(-0.24)	(-0.53)		(0.71)	(0.99)	
Firm × State FE	✓	✓	✓	✓	✓	✓
Year FE	✓			✓		
Firm × Year FE		✓	✓		✓	✓
State × Year FE			✓			✓
R^2	0.066	0.245	0.250	0.068	0.239	0.245
Observations	214,125	212,292	212,292	239,093	238,258	238,258

Table 8: Value implication of partisan allocation

This table shows the relationship between partisan labor allocation and subsequent stock returns. The dependent variable, $Return_{i,t+1}$, measures the stock return of firm i in year t+1. The independent variable, $Partisan\ Allocation_{i,t}$, is an indicator of whether firm i expands more in politically-aligned states than in politically-misaligned states in year t. Control variables include firm size, leverage, Tobin's Q, cash holding, profitability, firm-level employment growth, and capital expenditure in year t. Standard errors are clustered by firm and by year. T-statistics are reported in parentheses. *, **, *** indicate significance at the 10%, 5%, and 1% level, respectively.

	(1)	(2)
Partisan Allocation	-0.0132***	-0.0146***
	(-3.03)	(-2.91)
Log(Total asset)	-0.1697***	-0.1694***
	(-10.44)	(-9.62)
Leverage	0.1329***	0.1328***
	(3.07)	(3.12)
Tobin's Q	-0.0795***	-0.0804***
	(-8.40)	(-8.31)
Cash	-0.1548**	-0.1642***
	(-2.79)	(-2.99)
Profitability	-0.0155	0.0420
	(-0.28)	(0.68)
Emp Growth		-0.0034
		(-0.44)
CapEx		-0.6327***
		(-3.97)
Firm FE	✓	✓
Year FE	✓	✓
R^2	0.290	0.302
Observations	25,166	24,304

Table 9: Political alignment effect by corporate governance

This table presents the relationship between CEO-governor political alignment and state-level employment growth for firms with above- and below-median corporate governance, measured using Morningstar Sustainalytics scores. Because the data ends in 2019, we apply the 2019 score to subsequent years to align with the main sample period. *Poor governance* is a dummy that equals to 1 if firm i's governance score is at or below median in year t, and 0 otherwise. The dependent variable, $\Delta logEmp_{i,s,t}$, measures the employment growth of firm i in state s from year t-1 to t. The independent variable, $Align_{i,s,t}$, is an indicator of whether firm i CEO is politically aligned with state s governor in year t. Control variables include firm size, leverage, Tobin's Q, cash holding, profitability, and state-level unemployment rate, log GDP growth, and log population growth in year t-1. Standard errors are clustered by firm and by year. T statistics are reported in parentheses. *, **, *** indicate significance at the 10%, 5%, and 1% level, respectively.

	(1)	(2)	(3)
Align × Poor governance	0.0204**	0.0101**	0.0105**
	(2.57)	(2.41)	(2.41)
Align	-0.0019	0.0021	0.0015
	(-0.30)	(0.60)	(0.47)
Poor governance	0.0012		
	(0.14)		
Controls	✓	✓	✓
Firm × State FE	✓	✓	✓
Year FE	✓		
Firm × Year FE		✓	✓
State × Year FE			✓
R^2	0.092	0.281	0.284
Observations	201,215	200,826	200,826

Table 10: Executive-governor political alignment

This table presents the relationship between executive-governor political alignment and state-level employment growth. The dependent variable, $\Delta logEmp_{i,s,t}$, measures the employment growth of firm i in state s from year t-1 to t. The independent variable, Executive-gov align$_{i,s,t}$, is an indicator of whether firm i's CEO executive team is politically aligned with state s governor in year t. A firm's executive team is considered Republican-leaning if it has a greater number of Republican executives than Democrats, and vice versa. Control variables include firm size, leverage, Tobin's Q, cash holding, profitability, and state-level unemployment rate, log GDP growth, and log population growth in year t-1. Standard errors are clustered by firm and by year. T-statistics are reported in parentheses. *, **, *** indicate significance at the 10%, 5%, and 1% level, respectively.

	(1)	(2)	(3)
Executive-gov align	0.0073***	0.0035**	0.0036**
	(2.84)	(2.20)	(2.45)
Log(Total asset)	0.0042		
	(0.61)		
Leverage	-0.0149		
	(-0.77)		
Tobin's Q	0.0033		
	(1.22)		
Cash	-0.0420		
	(-1.33)		
Profitability	0.1844***		
	(7.37)		
%Unemployment	-0.0014	-0.0018	
	(-0.87)	(-1.59)	
GDP growth	0.0395	0.0199	
	(0.95)	(0.52)	
Population growth	0.0794	0.0966	
	(0.26)	(0.41)	
Firm × State FE	✓	✓	✓
Year FE	✓		
Firm × Year FE		✓	✓
State × Year FE			✓
R^2	0.067	0.242	0.245
Observations	453,218	450,550	450,550

Table 11: Robustness tests

This table presents robustness tests. Column (1) runs the main regression focusing on partisan firms. Column (2) uses the full donation history of CEOs to create a time-invariant measure of their political leaning. Column (3) presents a continuous measure of CEO-governor political alignment. Column (4) excludes the state where a firm's headquarter locates from the main regression. Column (5) applies a narrower margin of 2.5% as an alternative definition of close elections. The dependent variable is $\Delta logEmp_{i,s,t}$, which measures the employment growth of firm i in state s from year t-1 to t. The independent variable, $Align_{i,s,t}$, is an indicator of whether firm i CEO is politically aligned with state s governor in year t. Control variables include firm size, leverage, Tobin's Q, cash holding, profitability, and state-level unemployment rate, log GDP growth, and log population growth in year t-1. Standard errors are clustered by firm and by year. T-statistics are reported in parentheses. *, **, *** indicate significance at the 10%, 5%, and 1% level, respectively.

	(1)	(2)	(3)	(4)	(5)
	Partisan firms	All donations	Continuous	Exclude HQ	Margin $\leq$ 2.5%
Align	0.0060***	0.0048**	0.0033***	0.0057**	0.0155*
	(3.59)	(2.70)	(3.10)	(2.61)	(1.93)
Controls	✓	✓	✓	✓	✓
Firm × State FE	✓	✓	✓	✓	✓
Firm × Year FE	✓	✓	✓	✓	✓
State × Year FE	✓	✓	✓	✓	✓
R^2	0.276	0.245	0.245	0.251	0.552
Observations	188,266	450,550	450,550	425,192	44,868

Appendix. Variable Definition

Variable	Definition
$\Delta logEmp_{i,s,t}$	The employment growth of firm i in state s in year t. It is calculated as the logarithm of the firm i's employee count in state s in year t minus the logarithm of firm i's employee count in state s in year $t-1$: $\Delta logEmp_{i,s,t} = Log(Emp_{i,s,t}) - Log(Emp_{i,s,t-1})$.
$Align_{i,s,t}$	A dummy that equals 1 if firm i CEO is politically aligned state s governor in year t, where a CEO's political leaning is inferred using its past 10-year political donations.
$Log(Total\ asset_{i,t})$	The natural logarithm of total assets of firm i in year t (Compustat item: AT).
$Leverage_{i,t}$	The ratio of the sum of debt in current liabilities (Compustat item: DLC) and long-term debt (Item: DLTT) to assets (Item: AT) for firm i in year t.
$Tobin's\ Q_{i,t}$	Calculated as $((PRCC_F \times CSHO) + AT - CEQ)/AT$ for firm i in year t.
$Cash_{i,t}$	Calculated as cash holdings (Compustat item: CHE) scaled by total assets (Item: AT) for firm i in year t.
$Profitability_{i,t}$	Calculated as revenue minus cost of goods sold in year t scaled by total assets in year $t-1$ (Compustat item: $(REVT_t - COGS_t)/AT_{t-1}$).
$\%Unemployment_{s,t}$	The unemployment rate of state s in year t.
$GDP\ growth_{s,t}$	Calculated as the logarithm of the GDP of state s in year t minus the logarithm of the GDP of state s in year $t-1$: $GDP\ growth_{s,t} = Log(GDP_{s,t}) - Log(GDP_{s,t-1})$.
$Population\ growth_{s,t}$	Calculated as the logarithm of the population of state s in year t minus the logarithm of the population of state s in year $t-1$: $Population\ growth_{s,t} = Log(POP_{s,t}) - Log(POP_{s,t-1})$.
$Log(1 + Subsidy_{i,s,t})$	The natural logarithm of one plus the amount of government subsidy firm i receives from state s in year t.
$Return_{i,t}$	The stock return of firm i in year t.
$Partisan\ Allocation_{i,t}$	A measure of a firm's tendency toward partisan labor allocation. It indicates whether a firm i increases employment more in politically-aligned states than in nonaligned states in year t. It is calculated as: $Partisan\ Allocation_{i,t} = \mathbb{1}(\sum_{s=1}^{n} \Delta Emp_{s,i,t} \times aligned_{s,i,t} - \sum_{s=1}^{n} \Delta Emp_{s,i,t} \times misaligned_{s,i,t})$
$Emp\ growth_{i,t}$	Dirm-level employment growth of firm i from year $t-1$ to year t.
$CapEx_{i,t}$	Total capital expenditure of firm i in year t.
Executive-gov $align_{i,s,t}$	A dummy that equals 1 if firm i's CEO executive team is politically aligned with state s governor in year t. An executive team is considered Republican-leaning if it has more Republican executives than Democrats, and vice versa.

Internet Appendix. Additional Figures and Tables

Figure A1: State governor political leaning

This map shows the political leaning of U.S. state governors at four-year intervals and the last sample year. Red and blue indicate continued Republican and Democratic governorships, respectively. Light blue marks a shift from Republican to Democrat, and light red from Democrat to Republican. Gray denotes states where the previous or current governor is neither Republican nor Democrat.

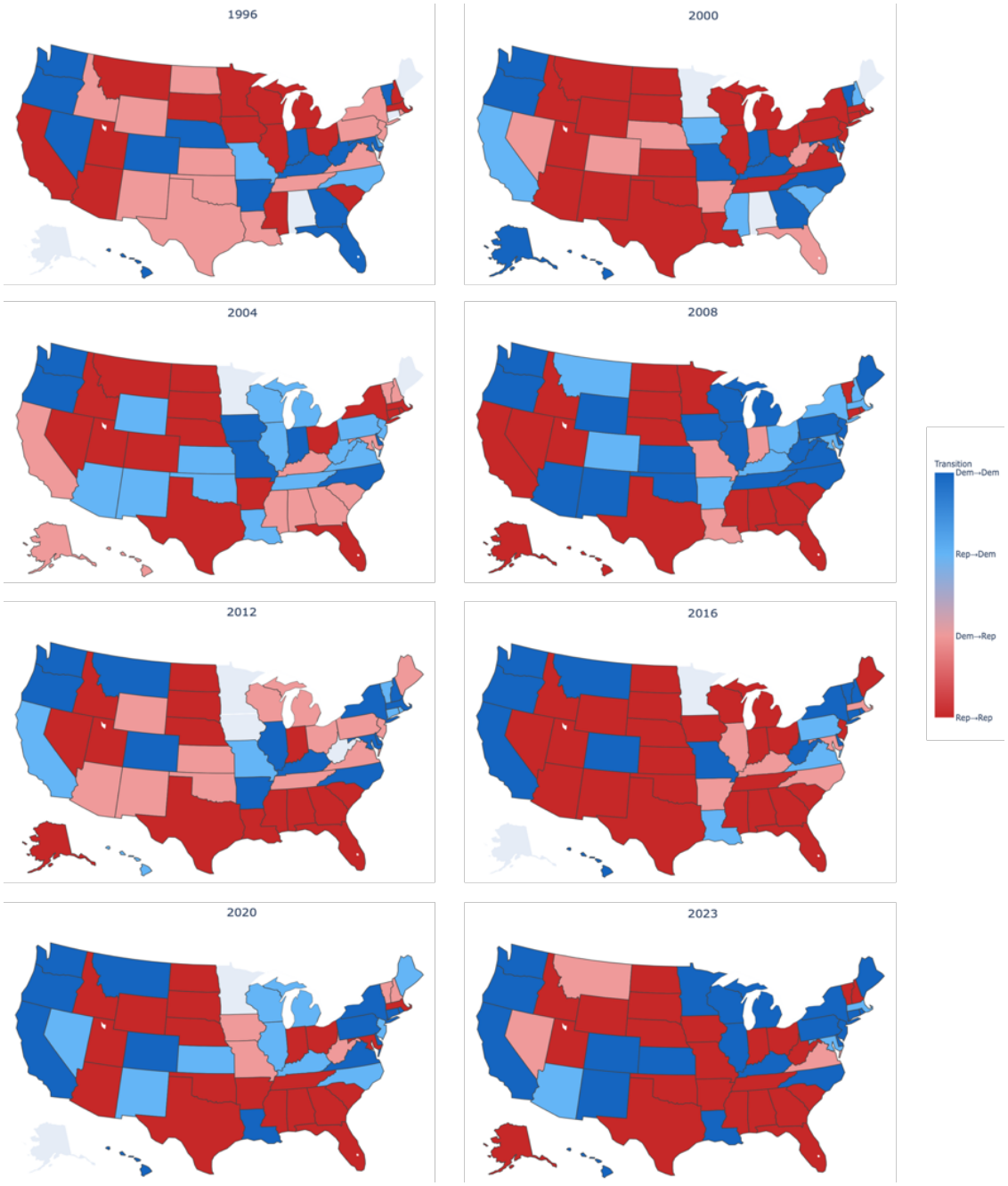


Figure A2: Industry partisan sensitivity

This figure shows the partisan sensitivity of each Fama-French 49 industry, based on changes in their stock market ranking responses to the 2016 and 2020 presidential elections. Industries are sorted by changes in weekly return rankings around each election, with large positive (negative) values indicating a preference for Democratic (Republican) policies.

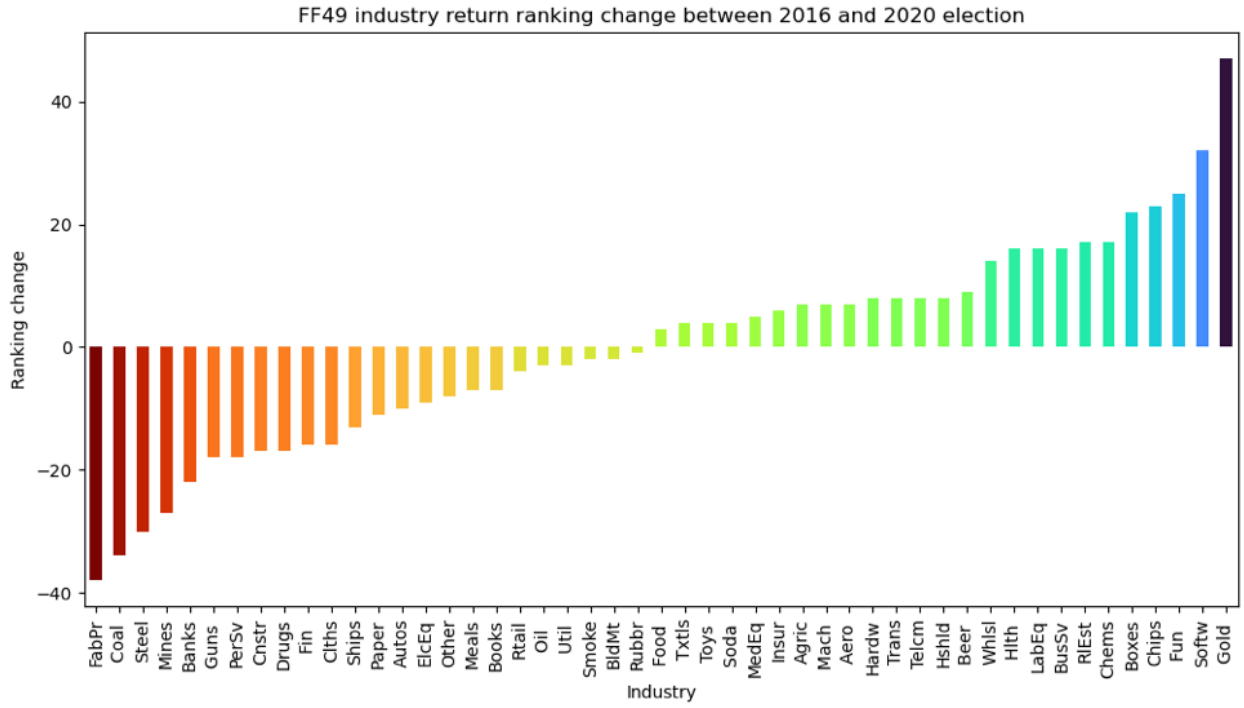


Table A1: Most Republican and Democratic donating CEOs

This table displays the top 10 CEOs by total contributions to the Republican and Democratic party. Rankings are based on their entire donation history throughout the sample period.

Rank	CEO Name	Company Name
Panel A: Top 10 Republican donating CEOs		
1	Sheldon Gary Adelson	Las Vegas Sands Corp
2	Stephen A. Wynn	Mirage Resorts Inc, Wynn Resorts Ltd
3	Paul L. Foster	Western Refining Inc
4	Larry A. Mizel	Mdc Holdings Inc
5	Gregg L. Engles	Whitewave Foods Co, Dean Foods Co
6	Charles B. Johnson	Franklin Resources Inc
7	Carl Henry Lindner	American Financial Group Inc
8	Daniel Paul Amos	Aflac Inc
9	Stephen I. Chazen	Occidental Petroleum Corp
10	Richard T. Farmer	Cintas Corp
Panel B: Top 10 Democratic donating CEOs		
1	Jeffrey Katzenberg	Dreamworks Animation Skg Inc
2	Eric E. Schmidt	Novell Inc, Alphabet Inc
3	Leonard A. Lauder	Estee Lauder Companies Inc
4	Robert A. Katz	Vail Resorts Inc
5	Warren E. Buffett	Berkshire Hathaway
6	Jack Clifford Bendheim	Phibro Animal Health Corp
7	Robert I. Toll	Toll Brothers Inc
8	Stephen James Luczo	Seagate Technology Holdings
9	Charles William Ergen	Dish Network Corp, Echostar Corp
10	Robert E. Price	Pricesmart Inc

Table A2: Partisan-sensitive vs. insensitive industries

This table presents partisan-sensitive and partisan-insensitive industries with their respective return ranking changes around the 2016 and 2020 presidential election.

Partisan Sensitive Industries		Partisan Insensitive Industries	
Precious Metals	47	Beer & Liquor	9
Fabricated Products	38	Electrical Equipment	9
Coal	34	Communication	8
Computer Software	32	Almost Nothing	8
Steel Works Etc	30	Transportation	8
Non-Metallic & Industrial Metal Mining	27	Consumer Goods	8
Entertainment	25	Computer Hardware	8
Electronic Equipment	23	Aircraft	7
Banking	22	Restaraunts, Hotels, Motels	7
Shipping Containers	22	Printing and Publishing	7
Personal Services	18	Machinery	7
Defense	18	Agriculture	7
Pharmaceutical Products	17	Insurance	6
Construction	17	Medical Equipment	5
Chemicals	17	Recreation	4
Real Estate	17	Textiles	4
Business Services	16	Retail	4
Measuring and Control Equipment	16	Candy & Soda	4
Healthcare	16	Petroleum and Natural Gas	3
Trading	16	Utilities	3
Apparel	16	Food Products	3
Wholesale	14	Tobacco Products	2
Shipbuilding, Railroad Equipment	13	Construction Materials	2
Business Supplies	11	Rubber and Plastic Products	1
Automobiles and Trucks	10		

Table A3: Tradable vs. non-tradable industries

This table presents the relationship between CEO-governor political alignment and state-level employment growth in tradable vs. non-tradable industries, classified using Barkai and Karger (2020). The dependent variable, $\Delta logEmp_{i,s,t}$, measures the employment growth of firm i in state s from year t-1 to t. The independent variable, $Align_{i,s,t}$, is an indicator of whether firm i CEO is politically aligned with state s governor in year t. Control variables include firm size, leverage, Tobin's Q, cash holding, profitability, and state-level unemployment rate, log GDP growth, and log population growth in year t-1. Standard errors are clustered by firm and by year. T statistics are reported in parentheses. *, **, *** indicate significance at the 10%, 5%, and 1% level, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
	Tradable industries			Non-tradable industries		
Align	0.0160**	0.0112*	0.0106*	0.0064	0.0047*	0.0054**
	(2.68)	(1.93)	(1.85)	(1.54)	(1.82)	(2.11)
Controls	✓	✓	✓	✓	✓	✓
Firm × State FE	✓	✓	✓	✓	✓	✓
Year FE	✓			✓		
Firm × Year FE		✓	✓		✓	✓
State × Year FE			✓			✓
R^2	0.059	0.205	0.216	0.066	0.248	0.254
Observations	105,380	104,205	104,203	197,383	196,326	196,326

Table A4: Political alignment and government subsidy

This table presents the relationship between CEO-governor political alignment and the subsidy a firm receives from the state government. The dependent variable, $Log(1 + Subsidy_{i,s,t})$, measures the logarithm of one plus the subsidy amount firm i receives from state s in year t. The independent variable, $Align_{i,s,t}$, is an indicator of whether firm i CEO is politically aligned with state s governor in year t. Control variables include firm size, leverage, Tobin's Q, cash holding, profitability, and state-level unemployment rate, log GDP growth, and log population growth in year t-1. Standard errors are clustered by firm and by year. T-statistics are reported in parentheses. *, **, *** indicate significance at the 10%, 5%, and 1% level, respectively.

	(1)	(2)	(3)
Align	0.0377**	0.0477***	0.0244
	(2.60)	(2.99)	(1.70)
Log(Total asset)	0.0755***		
	(4.19)		
Leverage	-0.0457		
	(-0.69)		
Tobin's Q	0.0085		
	(1.07)		
Cash	0.0783		
	(1.02)		
Profitability	0.1037*		
	(1.81)		
%Unemployment	-0.0267**	-0.0304**	
	(-2.25)	(-2.56)	
GDP growth	-0.0037	-0.1088	
	(-0.01)	(-0.24)	
Population growth	0.2243	-0.4119	
	(0.10)	(-0.17)	
Firm × State FE	✓	✓	✓
Year FE	✓		
Firm × Year FE		✓	✓
State × Year FE			✓
R^2	0.292	0.345	0.371
Observations	457,000	454,231	454,231

Table A5: Political alignment effect by corporate governance (2009-2019)

This table presents the relationship between CEO-governor political alignment and state-level employment growth for firms with above- and below-median corporate governance from 2009 to 2019, based on actual Sustainalytics scores. *Poor governance* is a dummy that equals to 1 if a firm's governance score is at or below median, and 0 otherwise. The dependent variable, $\Delta logEmp_{i,s,t}$, measures the employment growth of firm i in state s from year t-1 to t. The independent variable, $Align_{i,s,t}$, is an indicator of whether firm i CEO is politically aligned with state s governor in year t. Control variables include firm size, leverage, Tobin's Q, cash holding, profitability, and state-level unemployment rate, log GDP growth, and log population growth in year t-1. Standard errors are clustered by firm and by year. T statistics are reported in parentheses. *, **, *** indicate significance at the 10%, 5%, and 1% level, respectively.

	(1)	(2)	(3)
Align × Poor governance	0.0290**	0.0104*	0.0112*
	(3.13)	(2.07)	(2.22)
Align	-0.0088	0.0041	0.0036
	(-0.97)	(1.00)	(0.93)
Poor governance	-0.0048		
	(-0.56)		
Controls	✓	✓	✓
Firm × State FE	✓	✓	✓
Year FE	✓		
Firm × Year FE		✓	✓
State × Year FE			✓
R^2	0.117	0.304	0.307
Observations	158,247	157,971	157,971

Table A6: Political alignment effect by ES score

This table shows the relationship between CEO-governor political alignment and state-level employment growth for firms with above- vs. below-median environmental and social (ES) scores. The ES score is the average of firm i's Environmental and Social scores from Sustainalytics in year t. *Poor ES* is a dummy equal to 1 if the ES score is at or below the median for firm i in year t, and 0 otherwise. The dependent variable, $\Delta logEmp_{i,s,t}$, measures the employment growth of firm i in state s from year t-1 to t. The independent variable, $Align_{i,s,t}$, is an indicator of whether firm i CEO is politically aligned with state s governor in year t. Control variables include firm size, leverage, Tobin's Q, cash holding, profitability, and state-level unemployment rate, log GDP growth, and log population growth in year t-1. Standard errors are clustered by firm and by year. T statistics are reported in parentheses. *, **, *** indicate significance at the 10%, 5%, and 1% level, respectively.

	(1)	(2)	(3)
Align × Poor ES	-0.0132	0.0066	0.0067
	(-1.23)	(1.12)	(1.16)
Align	0.0149***	0.0045	0.0041
	(3.02)	(1.43)	(1.25)
Poor ES	0.0040		
	(0.51)		
Controls	✓	✓	✓
Firm × State FE	✓	✓	✓
Year FE	✓		
Firm × Year FE		✓	✓
State × Year FE			✓
R^2	0.092	0.281	0.284
Observations	201,215	200,826	200,826

Table A7: Democratic vs. Republican political alignment

This table presents the relationship between CEO-governor political alignment and state-level employment growth for Democrats and Republicans separately. The dependent variable, $\Delta logEmp_{i,s,t}$, measures the employment growth of firm i in state s from year t-1 to t. The independent variable, $Align_{i,s,t}$, is an indicator of whether firm i CEO is politically aligned with state s governor in year t. *Dem* is an indicator variable set to 1 if the governor is a Democrat. *Rep* is an indicator variable if the governor is a Republican. Control variables include firm size, leverage, Tobin's Q, cash holdings, profitability, and state-level unemployment rate, log GDP growth, and log population growth in year t-1. Standard errors are clustered by firm and by year. T-statistics are reported in parentheses. *, **, *** indicate significance at the 10%, 5%, and 1% level, respectively.

	(1)	(2)	(3)
Align × Dem	0.0059	0.0058*	0.0055
	(1.03)	(1.95)	(1.39)
Align × Rep	0.0067*	0.0059**	0.0066**
	(1.72)	(2.18)	(2.26)
Log(Total asset)	0.0044		
	(0.63)		
Leverage	-0.0149		
	(-0.77)		
Tobin's Q	0.0033		
	(1.21)		
Cash	-0.0421		
	(-1.33)		
Profitability	0.1846***		
	(7.39)		
%Unemployment	-0.0014	-0.0018	
	(-0.85)	(-1.56)	
GDP growth	0.0395	0.0199	
	(0.94)	(0.52)	
Population growth	0.0762	0.0991	
	(0.25)	(0.42)	
Firm × State FE	✓	✓	✓
Year FE	✓		
Firm × Year FE		✓	✓
State × Year FE			✓
R^2	0.067	0.242	0.245
Observations	453,218	450,550	450,550