Political Homophily in Supply Chain Relationships

Zhihong Chen[a], Ting Dai[a], Yonghao Archaelake Zhai[b]

[a] *The Hong Kong University of Science and Technology*
[b] *Singapore Management University*
December 5, 2024
Please do not cite or circulate without permission of the authors.

Abstract

This paper investigates how political ideology affects supply chain networks amid rising U.S. corporate polarization. Using data on corporate employees' political contributions and supply chain relationships, we present three key findings. First, homophily in political ideologies significantly increases supply chain relationship formation, especially under high information asymmetry. Second, this ideological alignment yields economic benefits: suppliers offer better trade credit terms and direct more innovation resources toward politically aligned customers. Third, firms with politically aligned suppliers demonstrate better operational performance such as enhanced market value and profitability. Using the Sinclair Broadcast Group's staggered geographic expansion as an exogenous shock, we establish causality between ideological homophily and supply chain partner selection. Our study extends the organizational behavior literature by showing how ideological similarities between firms create economic value through reduced transaction costs and improved coordination.

Keywords: Political Ideology, Supply Chain, Trade Credit, Patent
JEL Classification Codes: D22, D72, G38, L14, M41

*We thank Charles Becker, Ling Cen, Shawn Cole, Ran Duchin, Weikai Li, Pengfei Ma, Arthur Morris, Liandong Zhang, Yu Zhang, Yue Zheng, and participants at the SMU PhD workshop for helpful comments. We thank Mark Chen for providing the Asset Specificity Index (ASI). We remain responsible for all errors and omissions.

Email addresses: aczh@ust.hk (Zhihong Chen), ting.dai@connect.ust.hk (Ting Dai), yhzhai.2021@pbs.smu.edu.sg (Yonghao Archaelake Zhai)

1. Introduction

Over recent decades, partisan polarization in the United States has intensified significantly (e.g., Boxell et al., 2017; Mason and Wronski, 2018; Fos et al., 2022), potentially undermining cross-partisan trust and catalyzing both political and economic stagnation (e.g., Brewer and Pierce, 2005; Carlin and Love, 2013). This phenomenon manifests in recent consumer activism, notably exemplified by the 2022 boycott campaign targeting corporations funding anti-abortion legislation. Despite offering abortion-related travel reimbursements, prominent firms such as Coca-Cola and General Motors faced boycott for their political contributions to legislators supporting restrictive abortion policies (Davenport, 2022).[1] These movements underscore how political ideologies can foster isolated business ecosystems, engender mistrust between market participants, and fundamentally alter corporate trajectories (e.g., Iyengar and Westwood, 2015; Ren et al., 2023; Dimant, 2024). In this study, we investigate the role of ideological homophily in shaping trust dynamics within supply chain relationships, specifically examining whether such homophily facilitates relationship formation and analyzing its economic consequences.

To achieve our research objectives, we examine three interconnected questions. First, we investigate whether firms exhibiting similar political ideologies demonstrate a higher propensity for ideological homophily in supply chain relationships. Social identity theory suggests that group identities engender pride and self-esteem among individuals, leading them to differentiate between similar others (the in-group) and dissimilar others (the out-group) (Druckman and Lupia, 2016). This categorization manifests in discriminatory cooperative behaviors that favor in-group members over out-group members. Such in-group bias facilitates enhanced trust among group members, fostering more frequent and effective intra-group cooperation (e.g., Roccas and Brewer, 2002; Carlin and Love, 2013; Hernandez-Lagos and

[1]Other notable examples include: 1) boycott activities to X (formerly Twitter) by Apple, Disney following Elon Musk's promotion of an antisemitic tweet in 2023, and 2) Student protests against Israel in 2024. 1) Musk claimed that a tweet accusing Jews of hating white people was "the actual truth." The White House condemned these statements as "abhorrent." In response to Musk's tweets, over 150 rabbis called for major companies, including Apple and Disney, to halt advertising on the platform. Refer to Apple, Disney and IBM to pause ads on X after antisemitic Elon Musk tweet. 2)The Spring 2024 U.S. student protests demanding universities divest from Israel, with Brown University being the first to address divestment concerns democratically (Refer to Agreement between University, student leaders will end 'divestment' encampment at Brown.)

Minor, 2015). Consequently, we posit that ideological homophily strengthens trust in potential business partners within the same political group, thereby increasing the probability of establishing new supply chain relationships.

Second, given the pervasive nature of in-group favoritism (Carlin and Love, 2013), we examine the operational advantages that accrue to ideologically homophilic firms within supply chains, particularly focusing on relationship-specific trade credit and innovations. We posit that ideological homophily mitigates hold-up problems.[2] Therefore, the reduced hold-up problem will potentially foster trust, facilitate information exchange, and promote operational collaboration (Dyer and Singh, 1998). We anticipate that ideological homophily enhances supplier-driven customer-specific innovation and more favorable trade credit policies.

Third, we investigate the performance implications of ideologically homophilic relationships for customer firms. Recent research by Chen et al. (2021), Dasgupta et al. (2021), and Freeman (2023) demonstrates that suppliers and customers with overlapping ownership or personal connections can forge robust relationships, leading to enhanced customer performance following supply chain relationship formation. We hypothesize analogous effects for ideologically homophilic pairs, i.e., such political homophily signals efficient operational relationships between suppliers and customers, thereby generating tangible benefits for customer firms.

To answer these research questions, we first obtain individual-level political contribution data from the Federal Election Commission (FEC). We manually match the individual's self-reported employer with firm-level information in FactSet and Compustat databases and calculate each firm's political ideology score based on each individual employee's political contribution record. Since the conduct of firms is collectively determined by both management and rank-and-file employees (Svejnar, 1982), corporate behavior embodies the ideological orientation of the entity as a whole (Gupta et al., 2017). Thus, the values a firm upholds are mirrored in the political ideologies of its entire employees, which, in turn, could shape the

[2]Throughout this study, we employ the term "hold-up" broadly to encompass any form of opportunistic behavior that might emerge in a bilateral relationship from either party, including ex-post bargaining over exchange terms and the exploitation of proprietary information disclosed by the counterparty. Thus, enhanced cooperation in trade credit and innovation efforts can be partially attributed to hold-up mitigation.

firm's behaviors (Williamson, 2008). Accordingly, it is worthwhile to explore the influence of firm-wide ideological homophily on decision-making processes such as supplier selection.

To answer the first question, we investigate the likelihood aligned political ideologies establishing new supply chain relationships. We regress the supply chain relationship indicator (*OnChain*) on the Political Homophily Index (*PHI*) between the focal (supplier) and potential customer firms following the methods from (Dasgupta et al., 2021).[3] Following Campello and Gao (2017) and Lee et al. (2020), we construct our control sample by identifying potential but unrealized supplier-customer relationships. Specifically, for each focal supplier firm, we include firm pairs where the potential customer is a competitor of the supplier's existing customers but has not established a supply chain relationship with the focal supplier. This research design provides a theoretically motivated counterfactual that closely mirrors real-world supplier selection dynamics, as competitors within the same industry often share similar input requirements and operational characteristics. Our empirical analysis reveals that firms exhibiting ideological homophily demonstrate a significantly higher propensity to form supply chain relationships. These results remain robust across multiple fixed effects specifications, with the most stringent model incorporating the supplier-year and customer-year interactive fixed effects.

While the baseline effect on relationship formation appears modest, our cross-sectional analyses reveal the economic significance of ideological homophily under conditions of elevated information asymmetry between supply chain participants. We interact our political homophily measures with five distinct information asymmetry proxies that capture various dimensions of business relationship barriers: (1) Long Distance (Costello, 2013), where greater physical distance impedes information flows and increases monitoring complexity in supplier-customer interactions; (2) High Size Difference (Kacperczyk et al., 2024), where either supplier or customer size dominance creates operational and communication imbalances in the relationship; (3) market competition intensity, measured by the supplier's Herfindahl–Hirschman index (HHI), where lower concentration indicates heightened competitive pressure that may destabilize trading partnerships; (4) Supplier's Asset Specificity, which

[3]In this paper, "focal firm" and "supplier firm" are used synonymously.

captures firms' business model specialization by measuring asset redeployability across multiple uses or trading relationships (Chen et al., 2023); and (5) Supplier's accounting quality, measured by the average of accounting accruals calculated by the Modified Jones Model of Dechow (1995) and Kothari et al. (2005), with higher accruals magnitude indicating greater information opacity. Our empirical analyses demonstrate that ideological homophily serves as an informal mechanism to enhance trust and cooperation, with its importance significantly amplified under conditions of greater information barriers—specifically in scenarios of increased geographical distance, substantial size differentials, intense market competition, high asset specificity, and lower accounting quality. These findings suggest that political ideology homophily can facilitate supply chain relationships when traditional information channels and monitoring mechanisms become more challenging.[4]

We examine how ideological homophily influences suppliers' trade policies and innovation activities to illuminate the underlying economic mechanisms. Building on the premise that shared political ideology enhances trust, we hypothesize that suppliers exhibit a greater willingness to extend trade credit to ideologically homophilic customers. Using manually collected trade credit data from 10-K filings, we document that suppliers offer more favorable credit terms to customers sharing similar political ideologies. Complementary analysis of suppliers' total accounts receivable corroborates this finding, revealing increased trade receivables when suppliers engage with politically homophilic customers.

Further, we explore whether ideological homophily stimulates relationship-specific innovation. Leveraging detailed patent citation data, we construct precise measures of innovation spillovers between supply chain partners. Our analysis reveals that suppliers are more likely to cite their customers' patent portfolios when they exhibit stronger ideological homophily. This result remains robust across multiple specifications, including both binary measures of citation occurrence and continuous measures of citation frequency. To examine the aggregate innovation effects, we partition suppliers' annual patents into two groups: those citing paired customers' patents and those without such citations. We find that suppliers file more patents citing those of politically aligned customers and fewer patents not citing those of

[4]We further examine the role of *PHI* in supply chain relationship dynamics. Results reported in the Appendix indicate that political ideology homophily significantly facilitates relationship formation.

such customers, indicating a strategic reallocation of innovation resources toward politically homophilic relationships. These findings persist after controlling for firm- and pair-level characteristics and including various fixed effects specifications.

Building upon our analysis of ideological homophily's influence on supplier selection, we examine its implications for customer performance by investigating two critical dimensions of operating efficiency: market valuation (measured by Tobin's Q) and operating performance (measured by return on assets, ROA). In the spirit of Chen et al. (2021), we implement an event study focused on realized customer-supplier pairs, analyzing performance dynamics in a five-year window surrounding relationship initiation with politically homophilic suppliers. The results reveal significant enhancements in both Tobin's Q and ROA following the establishment of these relationships. These findings are further corroborated through pair-level panel regressions following Freeman (2023), which demonstrate that higher political ideology homophily (PHI) between customers and suppliers is systematically associated with improved customer performance metrics. This consistent pattern across multiple empirical specifications suggests that ideological homophily in supply chain relationships may create tangible economic value through enhanced operational synergies.

Although our results remain robust to extensive control variables and fixed effects, endogeneity concerns persist as suppliers might strategically align their political contributions with potential customers' preferences to secure business relationships, creating reverse causality issues. To establish causality between political homophily and supply chain relationships, we exploit the staggered geographic expansion of the Sinclair Broadcast Group, a conservative telecommunications conglomerate that has become the second-largest television station operator in the U.S. Prior research demonstrates that Sinclair's entry into local markets systematically shifts residents' and firms' political views toward conservative positions through increased exposure to right-leaning TV programs (Martin and McCrain, 2019; Dasgupta et al., 2021; Pan et al., 2024). This identification strategy builds on similar approaches examining the impact of conservative media, such as Fox News in the U.S. and Berlusconi in Italy (DellaVigna and Kaplan, 2007; Martin and Yurukoglu, 2017; Durante et al., 2019), but offers greater relevance to our study period and geographic scope.

Using Sinclair's expansion across different designated media markets (DMAs) from 2011

to 2017 as an exogenous shock to local political ideology, we first document that its entry significantly increases local firms' Republican-leaning orientation. We then employ a triple-difference approach to examine how this ideological shift affects supply chain formation. Our analysis reveals that supplier-customer pairs with reduced ideological divergence following Sinclair's entry experience a 26.4% higher likelihood of forming supply chain relationships relative to the sample mean. The effect becomes statistically significant four years after Sinclair's entry, consistent with our measurement of political ideology using four-year rolling windows of contribution data. These findings remain robust to various specifications, including entropy balancing methods that address potential selection concerns. By exploiting this quasi-natural experiment, we establish a causal relationship between political homophily and supply chain partner selection, demonstrating that ideological alignment significantly influences firms' economic relationships and decision-making.

We conduct several robustness tests to validate our main findings. To disentangle firm-wide ideological homophily from executive-level effects, we first examine whether our results are driven by CEO characteristics. While higher CEO-level PHI (PHI^{CEO}) between suppliers and potential customers increases the likelihood of relationship formation, this effect becomes insignificant after controlling for employee-level PHI (PHI^{Emp}), supporting our firm-wide ideological homophily hypothesis. Second, we verify the robustness of our findings using alternative measures of political ideology alignment. Third, we investigate the asymmetric effects of ideological homophily on relationship dynamics. Our analysis reveals that while higher PHI significantly increases the probability of new supply chain relationship formation, it does not materially affect the dissolution of existing relationships. This asymmetric effect suggests that ideological homophily primarily influences the partner selection process rather than the maintenance of established business relationships.

Our study makes several distinct contributions to the literature. First, we extend research on political partisanship and economic behavior by examining how firm-wide ideological homophily shapes inter-organizational relationships. While existing literature has extensively documented how political ideology influences individual-level decisions—from households' investment choices (Gerber and Huber, 2009; McGrath et al., 2017; Gillitzer and Prasad, 2018; Mian et al., 2023) and real estate decisions (McCartney and Zhang, 2019) to portfolio

allocations (Addoum and Kumar, 2016; Bonaparte et al., 2017; Giglio et al., 2021; Meeuwis et al., 2022)—and decisions by sophisticated market participants such as credit analysts (Kempf and Tsoutsoura, 2021), loan officers (Dagostino et al., 2023), entrepreneurs (Engelberg et al., 2022), mutual fund managers (Cassidy and Vorsatz, 2021), and judges (Huang et al., 2021; Gormley et al., 2022), firm-level analysis remains nascent. Recent work by Rice (2021) and Duchin et al. (2023) explores firm-level partisanship effects in merger contexts, but we advance this literature by demonstrating how organizational-wide political ideology shapes production market interactions. Our focus on operational-level employee influences in supply chain relationships provides novel evidence that ideological homophily serves as an informal mechanism for reducing information asymmetry and facilitating inter-firm cooperation.

Second, we contribute to the literature on supply chain management and product market by documenting how ideological homophily affects relationship-specific investments and trade credit provision. While prior research establishes that close customer-supplier relationships can substitute for vertical integration in reducing agency and transaction costs (Coase, 1937; Williamson, 1979; Granovetter, 1985; Cen et al., 2017), and influence firms' investment, financing, and disclosure decisions (Kale and Shahrur, 2007; Banerjee et al., 2008), we demonstrate that political ideology alignment facilitates relationship-specific innovation and trade credit provision. Our findings suggest that ideological homophily serves as a trust-building mechanism that encourages firms to make relationship-specific investments despite potential contractual incompleteness.

Third, we advance the organizational similarity literature by documenting how ideological homophily enhances operational efficiency through employee-level mechanisms. Prior studies have established value creation through various organizational similarities: CEO-director political homophily improving information sharing (Dasgupta et al., 2021), personal connections enhancing supply chain performance (Chen et al., 2021), and overlapping institutional ownership extending relationship duration (Freeman, 2023). Our analysis uniquely demonstrates that employee-level ideological homophily mitigates informational frictions and facilitates operational coordination, generating tangible economic value beyond top-management strategic behavior. These findings extend social identity theory by showing how shared

political ideology at the organizational level creates in-group favoritism that manifests in enhanced operational trust and cooperation.

2. Hypothesis Development

The establishment of supply chain relationships serves to mitigate potential incentive distortions inherent in conducting all business operations within a single firm (Coase, 1937). Firms, in their pursuit of maximizing value, often prefer to engage in transactions with other firms at an "arm's length" rather than through internalization via vertical integration, particularly when the value of transactions within a firm is comparable to that in the market (Lafontaine and Slade, 2007).

Nevertheless, nearly all supply chain relationships are founded upon incomplete contracts (Hart and Moore, 1999), which inherently give rise to agency problems (Coase, 1937; Williamson, 1979; Granovetter, 1985). This will ultimately lead to opportunism,[5] and hold-up problems,[6] thereby jeopardizing the stability of supply chain relationships (Holmström and Roberts, 1998; Krishnan et al., 2012). Aiming to mitigate agency and transaction costs, close customer-supplier relationships with strong trust serve as a substitute for vertical integration (Cen et al., 2017), however, the challenge lies in establishing such close relationships.

2.1. In-Group Favoritism Facilitates Supply Relationship Establishment

Political orientation significantly influences business operations and decision-making (Banda et al., 2020). Conflicts among individuals with different political beliefs can evolve from policy disagreements to encompass broader social identity conflicts, even in non-political contexts. This ideological divide can affect trust and cooperativeness, impacting the productivity and effectiveness of managerial decision-making (Goette et al., 2012; Carlin and Love, 2013; Burbano, 2021).

[5]For example, customers exercise their bargaining power and delay payment.

[6]For example, the return on relationship-specific investment is referred to quasi-rents, and the vulnerability of quasi-rents to appropriation by the non-investing party is referred to as the hold-up problem (Klein et al., 1978). Suppose a coal mine invests $1 million in development for a local energy utility, expecting a 10% return to justify the investment. However, once the capital is sunk and coal prices are renegotiated, the prices may not reflect the sunk cost, potentially yielding less than the required 10% return (Krishnan et al., 2012).

Political science theories suggest that individuals are more inclined to cooperate with those who share their political ideology (in-group members) compared to out-group members (Makimura and Yamagishi, 2003; Balliet et al., 2014).[7] This preference stems from a sense of pride and self-esteem derived from in-group affiliation, which can lead to a willingness to engage in financial transactions with fellow group members (Lemyre and Smith, 1985; Hernandez-Lagos and Minor, 2015). Conversely, this in-group favoritism can result in discrimination against out-group members. In the decision-making process, a shared political ideology can enhance trust among potential business partners, increasing the likelihood of in-group cooperation. Thus, our research asks: Does the alignment of the firm's political ideologies between supplier and customer influence the establishment of supply chain relationships? And what is the impact of such alignment?

Meanwhile, supply chain cooperation necessitates collaboration among employees at all levels, particularly rank-and-file employees, who actively contribute to resolving operational issues and challenges within the supply chain (Cen and Dasgupta, 2021). Given that employees at all levels bring their political ideologies into firms, the introduction of conservative or liberal ideologies by rank-and-file employees into the workplace inevitably influences decision-making processes and shapes social interactions, whether consciously or unconsciously (Swigart et al., 2020). Thus, the overall firm's political ideology assumes significance in shaping the firm's supply chain relationships. In light of this analysis, our research focuses on the political ideology of the whole firm and hypothesizes that congruence in political ideology can increase the likelihood of establishing supply chain relationships.

H1$_a$: **Customers and suppliers sharing a same organizational political ideology are more likely to establish a new supply chain relationship.**

However, the convergence theory in the supply chain management literature posits that supply chain management entails a universal set of management practices and principles

[7]Social Identity Theory from (Tajfel, 1978) claims identities shape social perceptions, attitudes, and behaviors, and salient group differences lead people to form psychological attachments to an "in-group". In-group members (1) magnify differences between themselves and a psychologically relevant "out-group"; (2) exhibit favoritism toward in-group members; and (3) perceive the out-group as undifferentiated, dissimilar, and inferior.

that transcend cultural boundaries (Griffith and Myers, 2005; Revilla and Sáenz, 2014).[8] Organizations with different cultures within the same supply chain are expected to share a common understanding of business and engage in similar behavior when doing business. Consequently, when organizations make decisions regarding supply chain establishment, the decision-making process should strictly adhere to official standards with minimal consideration of traditions or cultures, including political ideology. Sharing best practices in supply chain management between suppliers and customers emphasizes objectivity and impartiality. If the convergent theory holds true, differences in political ideology within the supply chain will not significantly influence the likelihood of establishing the supply chain.

$H1_b$: **Customers and suppliers with similar political ideologies will not significantly impact the likelihood of building a supply chain relationship.**

2.2. Political Trust along Supply Chain

Suppliers not only provide production inputs for their customers but also engage in trade credit and innovation activities that benefit the customers (Cen and Dasgupta, 2021; Wang et al., 2022). However, the hold-up problem makes financial arrangements and investments susceptible to opportunism, especially as the deliverables are challenging to specify ex-ante in a contract. Contractual incompleteness and lack of trust hinder cooperation between customers and suppliers (Chen et al., 2023).

Therefore, trust between parties becomes crucial in mitigating the negative impact of the hold-up problem. Zucker (1986) defines trust as a "set of expectations shared by all those involved in an exchange". Macneil (1983) emphasizes that expectations are shaped by formal social and regulatory structures, hierarchical positions, or customs. Trust develops from recurring patterns of exchange, the gradual formation of shared expectations, and the establishment of reputation (Zucker, 1986; Neu, 1991; Stolowy et al., 2014).

Organizational political ideology serves as such confirmation as it is coherent and stable. Employees import their political ideology into an organization to reflect their personal values,

[8]Convergence theory states the decision makers from different nations (cultures) within the same supply chain would aggregate the same understanding of the same sources of disruptions and would engage in similar behavior regarding the decisions made in order to impose corrective actions, which would imply similar logic and managerial practices in the decision-making process (Weed, 1979).

which are often resistant to change (Chow et al., 2021), meeting the requirement for building trust (Sztompka, 1999; Joyce, 2020). Since individuals often perceive members of their own group as inherently superior and more competent than those in out-groups (Sidanius et al., 1994). Thus, when sharing the same political ideology, same organizational political ideology foster trust between two parties (Bottazzi et al., 2008; Guiso et al., 2009; Duchin et al., 2023).

Meanwhile, since relationship-specific innovations have a lower value in an alternative use and the trade credit makes supplier in payment risk, sunk investments in these assets and the payment risk give customers more ex-post bargaining power at renegotiation (Klein et al., 1978; Williamson, 1979; Riordan and Williamson, 1985; Grossman and Hart, 1986; Hart and Moore, 1990). Thus, when suppliers trust and want to build a efficient supply chain relationship with customers, suppliers may be more willing to invest in relationship-specific innovation and offer a more generous trade credit policy (Cen and Dasgupta, 2021). Therefore, we expect

H2: **Political Ideology Similarity between the supplier and customer will increase the supplier trade credit and relation-specific innovations.**

2.3. The Effect on Customer Performance

Building on social identity theory and transaction cost economics, we propose that ideological homophily between suppliers and customers enhances customer firm performance through reduced transaction costs and improved operational efficiency. As Dasgupta et al. (2021) document, connected pairs are more likely to receive preferential treatment and protection during contract allocation and renewal processes, leading to more efficient supply chain relationships. This stability, combined with enhanced trust and reciprocity (Williamson, 1979), enables firms to focus on value-creating activities rather than constantly managing supplier uncertainty.

Furthermore, our earlier hypotheses suggest that politically aligned customers receive preferential treatment through enhanced trade credit and innovation support from suppliers. These operational advantages, coupled with reduced behavioral uncertainty and monitoring costs (Dyer and Singh, 1998), should translate into superior customer performance. Therefore, we predict:

H3: **Customer's overall performance will enhance when share a similar political ideology with the suppliers.**

3. Data and Summary Statistics

In this section, we introduce our data sources, main variable construction, and corresponding summary statistics. As we study how political ideology impacts the formation of supply chain relationships and the associated outcomes, our dataset incorporates data on the supply chain, political contributions, and other datasets, including patents, and firm fundamentals.

3.1. Supply Chain Relationships

We obtain data on supply chain relationships from FactSet Revere, which provides the most comprehensive global supply chain data across over one hundred countries. It compiles supplier-customer relationships from various sources, including the firm's annual filings (SEC 10-K), investor presentations, company websites, and press releases. Apart from that, it provides competitor entities disclosed by the source company, allowing us to construct counterfactual relationships and dummies indicating the realized relationships.

Since we can only observe data on U.S. firms' political contributions, we keep all the realized and counterfactual supplier-customer relationships for public firms headquartered in the U.S. between 2005 and 2022. We remove the firms in the year with less than three contribution records to avoid extreme values of $PoliScore$. We map the FactSet Revere database with Compustat using the firm's CUSIP to obtain the accounting data. We exclude the financial services industry (SIC codes 6000-6900) and remove observations with missing values for political ideology and control variables.

Our final sample consists of 32,951 realized and 509,903 counterfactual unique supplier-customer pairs from 3,767 public firms headquartered in the U.S. Table 1 reports the summary statistics of the characteristics for the suppliers and customers. These variables include firm size (natural logarithm of total assets), leverage, return on assets (ROA), Tobin's Q, and geographical distance between the headquarters of the supplier and customer. The detailed definitions of variables can be referred to in Table A.1 in the Appendix. On average, the

size of customers is larger than the suppliers. The mean log value of total assets is 7.80 and 8.50 for suppliers and customers, respectively. The unconditional mean likelihood of forming a supply chain relationship is only 7%, suggesting a competitive environment in matching suppliers and customers.

3.2. Political Contributions

To measure the political ideology of U.S. firms, we obtain data on political contributions by individuals from the Federal Election Commission (FEC) for the period 2001-2022. The database compiles detailed individual contributions data in excess of $200, as well as (i) transaction date, and amount, (ii) the donor's self-reported name, address, occupation, and employer, and (iii) the ID of the Political Action Committee (PAC) receiving the contribution. The initial database covers 12,059,956 contributions from individuals.

We follow Duchin et al. (2023) to process the political contributions data from FEC with several slight modifications. Specifically, to begin with, we remove transactions whose associated employer cannot be identified (e.g., "Self Employed", "Information Requested", "None", "Retired", "Unemployed", "Housewife", "Student", etc.), and manually match the remaining self-reported employer and FactSet Revere database with firms' legal names. Next, we classify each contribution into Democratic or Republican by referring to the party affiliation of the PAC receiving the contribution and its associated candidates. If we cannot identify the party affiliation of the receiving PAC (for instance, the PAC of the employer itself), we classify it as a Democratic (Republican) affiliation if within a specified election cycle at least 80% of its contributions are allocated to committees declared as Democratic (Republican).

We construct political ideology score ($PoliScore$) for firm i in year t by examining the historical pattern of political contributions made by the firm's employees over a four-year window (year $t-4$ to $t-1$).[9] Our primary measure, $PoliScore^{Num}$, aggregates the number of employees making contributions to Republican-affiliated PAC relative to the total number of employees making political contributions during the measurement window. We complement

[9]Our choice of a four-year measurement window reflects data availability constraints given the 2003 inception of FactSet Revere database. While Duchin et al. (2023) employ an eight-year window, prior studies have demonstrated the validity of shorter measurement periods (e.g., Ren, 2020; Fos et al., 2023; Kempf et al., 2023). The four-year window provides sufficient temporal depth while mitigating potential endogeneity concerns. Our empirical results remain robust to alternative window specifications.

this with an alternative measure, $PoliScore^{Contri}$, which captures the proportion of dollar amounts directed to Republican candidates. Specifically:

$$PoliScore_{i,t}^{Num} = \frac{\sum_{t-4}^{t-1} \#Republican\ Contributions_i}{\sum_{t-4}^{t-1} \#All\ Contributions_i},$$
$$PoliScore_{i,t}^{Contri} = \frac{\sum_{t-4}^{t-1} \$Republican\ Contributions_i}{\sum_{t-4}^{t-1} \$All\ Contributions_i}.$$

To ensure measurement reliability and mitigate potential bias from insufficient political activity, we impose a minimum threshold of five contributions during the four-year window for each firm. This methodology yields a comprehensive dataset comprising 78,072 firm-year observations across 5,798 distinct firms, with complete coverage across all political ideology measures.

Following our firm-level political ideology measures, we construct our primary variable of interest, PHI (Political Homophily Index), which captures ideological alignment between supplier-customer pairs. Following Dasgupta et al. (2021), we define $PHI_{i,j,t}$ for supplier i and customer j in year t as:

$$PHI_{i,j,t} = 1 - |PoliScore_{i,t}^{Num} - PoliScore_{j,t}^{Num}|.$$

This continuous measure quantifies the degree of political ideology convergence between supply chain partners, providing greater granularity than binary classifications. To ensure robustness, we construct two alternative specifications: (1) $PHI_{i,j,t}^{Contri}$, computed analogously using $PoliScore_{i,j,t}^{Contri}$; and (2) $Same_{i,j,t}$, a binary indicator that equals 1 when firms i and j share the same political ideology classification in year t, and 0 otherwise.[10] The *Same* measure captures discrete alignment in corporate political orientation, potentially reflecting shared organizational values and strategic approaches to business engagement. This complementary set of measures enables us to examine both continuous and discrete dimensions

[10]We partition the political ideology spectrum into five intervals: [0,0.2], (0.2,0.4], (0.4,0.6], (0.6,0.8], and (0.8,1], corresponding to traditional political classifications from left-wing" to right-wing" (Laponce, 1972; Gidron and Ziblatt, 2019). The endpoints 0 and 1 represent complete Democratic and Republican affiliation, respectively. Our empirical results remain robust to alternative classification schemes.

of political ideology alignment in supply chain relationships.

Figure 1 illustrates the intuition of our main variables of interest. Firms A, B, and C have *PoliScore* of 0.25, 0.35, and 0.9, respectively. As both Firm A and B are situated in the domain of 0.2-0.4, they are located in the same interval (analogous to "center-left") on the political spectrum, $Same_{A,B}$ equals 1 and the associated $PHI_{A,B}$ is 0.9. Accordingly, firms A and B are more likely to form a supply chain relationship. Firms A and C, however, are far apart on the political spectrum (analogous to "center-left" versus "right-wing"), $PHI_{A,C}$ equalling 0.35 captures the political similarity between the two firms, and correspondingly, $Same_{A,C}$ equals 0. Thus, the divergence in political ideology may isolate one another, hindering them from conducting business together.

Table 1 reports the summary statistics of the political ideology measures. In the realized and conterfactual supply chain relationships, the average PHI is 0.73, and 32% of the pairs share the same interval on the political spectrum. Since our political ideology measures take into account of the entire employee universe in each firm, the party affiliations of both suppliers and customers are slightly more aligned with Democrats as rank-and-file employees are more Democratic-oriented (Ren, 2020). Figure 2 illustrates the temporal patterns of both PHI and *Same* among realized supply chain pairs. A notable surge in both ideology measures emerges following Donald Trump's presidency, indicating that supply chain relationships became increasingly politically homophilic during this period. This trend reflects the broader pattern of political polarization in business relationships (Kempf et al., 2023).

3.3. Other Data Sources

In addition to supply chain and political contribution databases, we obtain other data from various sources. Specifically, we obtain patent data obtained from PatentsView[11] and Kogan et al. (2017). The richness of the patent data allows us to construct pair-level measures that likely capture the supplier innovation that is tailored for the customer. We follow the method of Dasgupta et al. (2021) to identify whether the supplier produces any patent that cites its customer's patent portfolio as well as the number of cross-citations. The presence and intensity of cross-citations indicate that the supplier tailors its R&D to its customer's

[11] See PatentView.

technology (Jaffe, 1986).

To obtain data on customer-specific trade credit, we follow Freeman (2023) and manually collect firms' disclosures of customer-specific account receivables and revenues from annual 10-Ks. Firms' accounting data is from the Compustat database. A limitation of Compustat is that it documents only firms' latest geographical information. As we study the matching between suppliers and customers, the correct historical information on the location of firms' headquarters is essential to control their geographical distances. To this end, we obtain historical data on the firms' headquarters' locations using Bill McDonald's Augmented 10-X Header Data, which was sourced from 10-K and 10-Q filings available on EDGAR dating back to 1994.

4. Research Design and Results

In this section, we move on to illustrate our research designs and corresponding results.

4.1. In-Group Favoritism Facilitates Supply Relationship Establishment

As outlined in Section 2.1, focal firms (suppliers) and potential customers sharing similar political ideologies are more likely to build supply chain relationships, i.e., strong in-group trust between suppliers and customers ($H1_a$). Alternatively, the decision-making process on supply chain collaborations should somewhat adhere to official standards and eliminate the effect of political divergence ($H1_b$). To formally test whether similar political ideologies between focal suppliers and potential customers will translate into the formation of supply chain relationships, we run the following regression,

$$OnChain_{i,j,t} = \beta_1 PHI_{i,j,t} + \mathbf{X}_{i,j,t} + \mathbf{FEs} + \varepsilon_{i,j,t}, \tag{1}$$

where $OnChain_{i,j,t}$ is a dummy variable that equals 1 if the focal firm (supplier) i and potential customer j form a supply chain relationship in year t, and 0 otherwise. We construct counterfactual supplier-customer pairs (i.e., the zero pairs) with all the competitors disclosed by the real customers of the focal supplier i in year t. $PHI_{i,j,t}$ is defined in Section 3.2, and measures the absolute similarity between their political ideology scores. $\mathbf{X}_{i,j,t}$ are firm-level and pair-level control variables such as total asset, leverage, ROA, Tobin's Q of and supplier i

and potential customer j, and geographic distance between their headquarters. **FEs** include different combinations of fixed effects such as fiscal year, supplier, and customer, and the interactions of fiscal year and supplier, customer fixed effects, respectively. Standard errors are clustered at the supplier-customer level. The detailed definitions of variables can be referred to in Table A.1 in the Appendix.

Our empirical analysis investigates how political ideology alignment influences supply chain partnership formation. To evaluate Hypothesis 1a, which predicts that political ideology similarity implies a higher likelihood of supply chain formation, we examine the coefficient β_1 on $PHI_{i,j,t}$. Support for Hypothesis 1a would manifest as a positive and significant β_1, while Hypothesis 1b would be supported by an insignificant coefficient.

Table 2 presents our baseline estimation results. We implement a systematic approach with progressively stringent specifications to ensure robustness. Column 1 presents our baseline model, incorporating comprehensive controls for supplier and customer characteristics alongside year, supplier, and customer fixed effects. Column 2 isolates the fixed effect structure to assess the sensitivity of our findings to control variable inclusion. In Column 3, we implement the most rigorous specification by incorporating $Supplier \times Year$ and $Customer \times Year$ fixed effects, which absorb time-varying firm-level unobservable factors that might influence supply chain relationship formation, such as evolving corporate strategies or endogenous concerns about suppliers' ESG performance (Dai et al., 2021; Shi et al., 2023).

The coefficient on $PHI_{i,j,t}$ maintains statistical significance across all specifications, providing robust evidence that political ideology alignment enhances supply chain relationship formation probability. The economic magnitude is substantial: in Column 1, a one-standard-deviation increase in PHI corresponds to a 5.25% ($0.016 \times 0.233/0.07$) increase in matching likelihood relative to the sample mean. The persistence of these results across increasingly demanding empirical specifications strengthens our inference regarding the economic significance of political ideology alignment in supply chain partnership decisions. These findings align with Hypothesis 1a, supporting the premise that aligned political ideologies enhance supply chain relationship formation.

In Table 3, we conduct cross-sectional analyses to examine how information asymmetry

influences the economic significance of political ideology alignment in supply chain relationships. We interact our political ideology measures with five distinct proxies capturing various dimensions of information barriers between supply chain participants. First, we employ Long Distance (Costello, 2013), as greater physical distance naturally impedes information flows and increases monitoring complexity in supplier-customer interactions. Second, we consider High Size Difference (Kacperczyk et al., 2024), where substantial disparities in organizational scale create operational and communication imbalances. Third, we examine market competition intensity through the supplier's HHI, where lower industry concentration indicates heightened competitive pressure that may destabilize trading partnerships. Fourth, we incorporate Supplier's Asset Specificity, which captures firms' business model specialization by measuring asset deployability across multiple uses or trading relationships (Chen et al., 2023). Finally, we assess Supplier's accounting quality through discretionary accruals calculated using the Modified Jones Model (Dechow, 1995; Kothari et al., 2005), where higher accruals magnitude signals greater information opacity.

Our empirical analyses yield positive interaction terms across all specifications, indicating that political ideology alignment serves as an informal mechanism to enhance trust and cooperation. The importance of this alignment is significantly amplified under conditions of greater information barriers—specifically in scenarios of increased geographical distance, substantial size differentials, intense market competition, high asset specificity, and lower accounting quality. These findings suggest that shared political ideology can enhance the formation of supply chain relationships precisely when traditional information channels and monitoring mechanisms become more challenging.

4.2. Political Trust along Supply Chain

Having established the fact that firms sharing aligned political ideology will be more likely to form supply chain relationships, we move on to examine the potential mechanisms. As outlined in Hypothesis 2, we predict a focal firm (supplier) gives more trust to customers, thus extending more trade credit (account receivables) if the customers share the same political ideology with the focal firm (supplier). We run the regression as below:

$$TradeCredit_{i,j,t} = \beta_1 \times PHI_{i,j,t} + \mathbf{X}_{i,j,t} + \mathbf{FEs} + \varepsilon_{i,j,t}, \tag{2}$$

where $TradeCredit_{i,j,t}$ captures either relationship-specific trade receivables (the percentage of accounts receivable extended to customer j by supplier i, manually extracted from 10-K filings) or aggregate trade credit (measured as the natural logarithm of supplier i's total accounts receivable). All other variables maintain their definitions from Equation (1).

Table 4 presents our estimation results. Column 1 examines relationship-specific trade credit, revealing a positive and statistically significant coefficient on PHI at the 5% level. This finding suggests that suppliers extend more trade credit to customers sharing similar political ideologies, consistent with our hypothesis that political alignment enhances trust in supply chain relationships. Column 2 extends this analysis to aggregate trade credit, employing total accounts receivable as the dependent variable. The results remain qualitatively similar, with the coefficient on PHI maintaining both statistical significance and economic direction consistent with our relationship-specific findings. This consistency across both granular and aggregate measures strengthens our inference that political ideology alignment meaningfully influences trade credit extension practices.

Further, Hypothesis 2 predicts suppliers will put more effort into relationship-specific investments due to higher trust in politically aligned customers as such investments are associated with higher sunk cost. To test this, we run the following regression:

$$RelationInv_{i,j,t+1} = \beta_1 \times PHI_{i,j,t} + \mathbf{X}_{i,j,t} + \mathbf{FEs} + \varepsilon_{i,j,t}, \tag{3}$$

where $RelationInv_{i,j,t+1}$ captures relationship-specific investment from supplier i to customer j through four distinct measures of innovation linkages: (1) a binary indicator equal to 1 if supplier i cites customer j's patents in year $t+1$, (2) the natural logarithm of one plus the frequency of supplier i's citations to customer j's patents in year $t+1$, (3) the natural logarithm of one plus supplier i's total patents containing citations to customer j's patent portfolio in year $t+1$, and (4) the natural logarithm of one plus supplier i's total patents containing citations to customer j's patent portfolio in year $t+1$.[12] The definitions of the other variables are consistent with Equation (1).

Table 5 presents estimation results that strongly support our predictions regarding the

[12]All patent metrics are based on application years to ensure temporal alignment with our analysis.

relationship between political alignment and supplier innovation. Columns (1) and (2) reveal that higher political ideology alignment significantly increases both the probability and intensity of cross-citations, indicating enhanced relationship-specific investment. Column 3 demonstrates that suppliers direct more innovation resources toward politically aligned customers, as evidenced by the positive and significant coefficient on total patents citing the customer's portfolio. Conversely, the negative coefficient on non-citing patents in Column 4 suggests a strategic reallocation of innovation resources toward politically aligned trading partners. This systematic pattern across multiple innovation metrics provides robust evidence that political alignment shapes the direction and intensity of relationship-specific technological investment.

Collectively, our empirical analyses reveal that enhanced trust along the supply chain serves as a fundamental mechanism through which political ideology alignment enhances relationship formation. This trust manifests through dual channels: increased relationship-specific trade credit extension and heightened technological investments, ultimately generating substantive benefits for customer firms. Specifically, customers gain enhanced access to working capital through more accommodative trade credit arrangements, and benefit from targeted supplier-driven innovations addressing their operational requirements. These findings demonstrate that shared political ideology functions as an informal governance mechanism, generating tangible economic value through enhanced operational efficiency and technological innovation in supply chain partnerships.

4.3. The Effect on Customer

In the previous section, we establish the potential mechanisms through which aligned political ideology is translated into the formation of supply chain relationships. We next examine whether such alignment generates tangible benefits for customer performance. We hypothesize that customers with politically aligned suppliers should exhibit superior operational outcomes. To empirically investigate the performance implications of political ideology alignment in supply chain relationships, we follow the methodological approaches of Chen et al. (2021), Dasgupta et al. (2021), and Freeman (2023), focusing on two fundamental measures of performance: (1) Tobin's Q, capturing market valuation, and (2) return on assets

(ROA), reflecting operational profitability.

These comprehensive performance metrics capture the multifaceted ways in which supply chain relationships might influence firm value and operational efficiency. Our underlying economic argument suggests that heightened political ideology alignment mitigates concerns about information asymmetry and reduces demand for monitoring, thereby reducing supply chain disruptions. Such operational stability should manifest in more predictable product costs and optimized inventory management, reducing the likelihood of inventory write-downs. Consequently, we anticipate that customers with politically aligned suppliers will demonstrate superior firm value and operational efficiency, reflecting the benefits of enhanced supply chain stability and coordination.

Following the approach of Chen et al. (2021), we implement an event study analysis centered on supply chain relationship initiation. We restrict our sample to realized customer-supplier pairs and estimate the following specifications:

$$Outcome_{j,t} = \beta_1 PHI_{i,j,t} \times Post_{i,j,t} + \beta_2 PHI_{i,j,t} + \beta_3 Post_{i,j,t} + \mathbf{X}_{i,j,t} + \mathbf{FEs} + \varepsilon_{i,j,t}, \quad (4)$$

where $Outcome_{j,t}$ represents our two measures of operating efficiency (Tobin's Q and ROA). $Post_{i,j,t}$ is an dummy variable that equals 1 if year t is the year of or after relationship formation and 0 if year t is in the preceding-formation period. We include samples from -5 years to 5 years relative to the formation year. Our coefficient of interest, β_1, captures the differential effect of political ideology alignment on post-formation performance. To isolate the customer-specific effects while controlling for temporal variations, we incorporate customer characteristics and employ a two-way fixed effects structure with customer and year-fixed effects. Standard errors are clustered at the customer firm level to account for potential within-firm correlation in the error structure in this model. To address potential estimation bias arising from the presence of large customers with multiple supplier relationships (e.g., Walmart), we implement a weighted least squares (WLS) estimation strategy. Specifically, we assign weights inversely proportional to each customer's supplier count, ensuring balanced representation across customers while accounting for the relative economic importance of supplier relationships and mitigating concerns about heteroskedasticity in our

estimates.

Panel A of Table 6 presents results from the event study analysis based on Equation (4). The interaction coefficient ($PHI \times Post$) exhibits positive and statistically significant associations with both market valuation (Tobin's Q) and operational profitability (ROA), providing empirical support for our hypothesis that political ideology alignment enhances operational efficiency through strengthened trust mechanisms. In Panel B of Table 6, we extend our empirical investigation through pair-level analysis, following Freeman (2023). This complementary approach examines established supply chain relationships, maintaining consistency with our baseline specification by employing the same control variables and fixed effects structure as presented in Table 2. By analyzing the temporal dynamics between political homophily (PHI) and firm performance metrics within existing partnerships, we provide additional insight into the economic consequences of political alignment. The estimation results reveal consistently positive and statistically significant coefficients across specifications, reinforcing our primary findings that political ideology alignment in supply chain relationships yields measurable improvements in both market valuation and operational efficiency metrics.

4.4. Addressing Endogeneity Concerns: Entry of Sinclair Broadcast Group

The relation between decisions on forming business relationships and political ideology proxied by political contributions might be endogenous. For example, a focal supplier can strategically make contributions to a certain party supported by the potential customer with which the focal supplier would like to connect. Thus, reverse causality problems arise as such strategic business connections will translate into persistent political convergence. Although the concern of strategic contributions is not severe since we use the data of all employees in the past four years, we go one step further to tackle the endogeneity issues with the staggered entry of Sinclair Broadcast Group.

Sinclair Broadcast Group is widely recognized as a conservative and right-leaning telecommunications conglomerate in the U.S. Up to 2024, it has become the second-largest television station operator in the U.S. by number of stations (185), covering 40% of American households across nearly 100 designated media markets (DMAs). With the rapid expansion of

Sinclair, the political views of local residents shifted further to the right because of higher exposure to right-leaning TV programs, increasingly aligning with Republican ideals and values (Martin and McCrain, 2019; Ren, 2020; Dasgupta et al., 2021; Levendusky, 2022; Pan et al., 2024). Despite a similar idea has been examined in the setting of staggered entry of Fox News in the U.S. and Silvio Berlusconi in Italy (DellaVigna and Kaplan, 2007; Martin and Yurukoglu, 2017; Durante et al., 2019), the scenario of Sinclair is more compatible with our research in terms of the time period and geographic location.

We obtain the list of TV stations operated by Sinclair each year from its 10-K reports downloaded from EDGAR. The data covers the dynamic operating rights of 237 stations across 79 DMAs from 2005 to 2021. We match firms' DMA with zip code.[13] In Table A.3, we present the impact of Sinclair's entry into a DMA on the political ideology of local firms. Specifically, we compare the level of political ideology scores constructed with contributions data in a four-year window ex-post and ex-ante relative to the shock year in Panel A between treatment and control groups. In Panel B, we show that the change in political ideology scores is larger for the treatment group. The coefficients in Panels A and B are similar in magnitude, with the entry of Sinclair raising local firms' political ideology score by around 0.06. These findings indicate that the entry of Sinclair TV stations drives local firms' political ideologies to be more Republican-leaning.

Having established that political ideology can be shifted by exposure to Sinclair, we move forward to analyze the causal effect of political homophily on the matching along the supply chain with the staggered entry of Sinclair into local markets. Based on the notion that Sinclair right-shifted local political views, it is reasonable to infer that for a certain supplier-customer pair, the divergence between their political ideology score shrinks (thus PHI = 1 - divergence rises) only if the score of the *untreated* customer is greater than that of the *treated* supplier. Therefore, we hypothesize that the shrunk political divergence for such pairs will spur the matching between the supplier and potential customers. We run a

[13]To avoid repeated treatments, we identify the entry of Sinclair as the first time when Sinclair acquires or establishes a TV station in a certain DMA. The entry events range from 2011 to 2017, covering 57 DMAs.

triple difference regression as shown in Equation (5),

$$\begin{aligned} OnChain_{i,d,j,t,e} = & \, Treat_{i,d,e} \times Post_{t,e} \times CusMoreRep_{i,d,j,e} \\ & + Treat_{i,d,e} \times CusMoreRep_{i,d,j,e} + Post_{t,e} \times CusMoreRep_{i,d,j,e} \\ & + CusMoreRep_{i,d,j,e} + \mathbf{FEs} + \varepsilon_{i,d,j,t,e}, \end{aligned} \tag{5}$$

where $Treat_{i,d,e}$ equals 1 if supplier i located in DMA d experiences the entry of Sinclair, i.e., shock event e, and 0 otherwise; $Post_{t,e}$ equals 1 after the year of entry (t_0) in shock event e; $CusMoreRep_{i,d,j,e}$ is a dummy that takes the value of one if the political ideology score of customer j is greater than that of the supplier i one year before the shock year ($t_0 - 1$) in shock event e (i.e., the pairs with plausibly shrunk political divergence). To construct the control group, we match the potential pairs with the supplier characteristics. Specifically, for each treated supplier i in shock event e, we require the suppliers in the control group to satisfy: 1) having the same two-digit SIC code; 2) total assets one year before the shock year fall in ±30% bracket; 3) Tobin's Q one year before the shock year falls in ±30% bracket.[14] Table A.2 provides summary statistics and comparisons of the treatment and control groups. The results indicate that other than ROA and leverage, there is no significant difference across all other variables before the Sinclair shock. Nevertheless, there is only a weak divergence of ROA between the groups at a significance level of 10%. Meanwhile, the coefficient for leverage is not significant in the baseline regression as shown in Table , hence the difference in leverage may not be a concern as it plays a negligible role in the supply chain matching. Note that we construct control groups for each shock event, thus our research design follows the stacked difference-in-differences specifications. Furthermore, we remove pairs with treated customers and require all the suppliers in the control group to be untreated during or before the entire event window to ensure a clean identification. Therefore, our specifications avoid concerns about differing weightings for earlier versus later events in the sample period (de Chaisemartin and D'Haultfœuille, 2020; Callaway and Sant'Anna, 2021; Sun and Abraham, 2021; Baker et al., 2022).

[14] This is evidenced by the baseline results, where total assets and Tobin's Q play the most important roles as control variables in terms of both statistical and economic significance.

Table A.3 presents the triple-difference regression results. Column 1 shows that controlling for supplier, customer, and year fixed effects, the pairs with shrunk political divergence experience a 2.2% higher matching likelihood, which is equivalent to a 30.6% (0.022/0.072) increase relative to the unconditional mean value of supply chain matching probability. In Column 2, we further control for event × supplier, event × customer, and event × year fixed effects and the associated economic significance drops but is still similar in magnitude (26.4% = 0.019/0.072), with statistical significance levels at 1%. Regarding the dynamic effects of Sinclair's entry on supply chain matching for the pairs with shrunk political divergence, Figure 3 plots the event study estimates of the triple-difference term associated with confidence intervals at 95% level. There are no pre-trends prior to the shock. The coefficients start to be statistically significant at the 1% significance level four years after the shock. While the coefficients are not statistically significant in the short run, it is important to note that our political ideology scores are based on historical contribution data from the previous four years (i.e., data from year $t-4$ to $t-1$ for the score in year t) and a lag in the effect of Sinclair is not unexpected.

To address the concern of imbalanced control samples and ex-ante divergence of ROA and leverage between suppliers in treatment and control groups potentially driving the supply chain matching, we exploit the entropy balancing method which reweights each observation in the regression based on its ex-ante characteristics. Specifically, after constructing the control group in regression 5, we continue to adjust inequalities in the first moment of the covariate distributions. These covariates include the suppliers' total assets, Tobin's Q, ROA, and leverage. The results demonstrated in Table A.4 suggest that the effect of Sinclair's entry continues to be statistically significant, and the associated economic significance remains stable.

Taken together, exploiting the staggered entry of Sinclair which shifts local political views further to the right and thus shrinks the relative political divergence (amplifies PHI), we establish a causal link between the firm's political homophily and the matching on the supply chain.

4.5. Decomposing Political Alignment: Employee-Level versus Executive Effects

To extend beyond prior studies that focus on top management connections (e.g., Chen et al., 2021; Dasgupta et al., 2021), we decompose political alignment into two components: employee-level homophily (PHI^{Emp}) and CEO-level homophily (PHI^{CEO}) measures. Using CEO identities merged across BoardEx, Compustat ExecuComp, and Capital IQ People Intelligence, we identify political contributions of firms' CEOs and construct PHI^{CEO}. In contrast, PHI^{Emp} captures political alignment using dollar-amount contributions from the entire employee base other than the CEO. We then re-estimate our baseline specification from Equation (1) using these disaggregated measures.

Table 8 presents this comparative analysis. Column 2 and (3) demonstrate that CEO political ideology alignment independently predicts supply chain relationship formation, consistent with prior literature on executive-level connections. However, this effect dissipates when we incorporate employee-level political alignment in Column 1. This pattern suggests that while executive alignment matters, the broader organizational political alignment captured by employee contributions provides incremental explanatory power in predicting supply chain partnership formation. These findings extend our understanding beyond traditional executive-centric perspectives, highlighting the importance of organization-wide political ideology in shaping inter-firm relationships.

4.6. Additional Tests and Robustness Analyses

To ensure the reliability and generalizability of our findings, we conduct several additional analyses documented in the Appendix. First, we examine the sensitivity of our baseline results to alternative specifications of political ideology alignment. Panel A of Table A.5 demonstrates that our findings remain robust when employing alternative measures of political alignment, including the discrete classification measure ($Same$) and contribution-weighted alignment (PHI^{contri}).

To address potential concerns about measurement precision, we conduct a sensitivity analysis excluding moderate or swing voters (those with $PoliScore^{Num}$ between 0.4 and 0.8). This refined sample, focusing on firms with more distinct political orientations, continues to yield consistent results as shown in Panel B of Table A.5, suggesting our findings are not

driven by ambiguous ideological classifications.

Furthermore, we investigate the temporal dynamics of political alignment's influence on supply chain relationships in Table A.6. Our analysis reveals an asymmetric effect: while higher political ideology alignment significantly increases the probability of new relationship formation, it does not materially affect the dissolution of existing supplier-customer relationships. This asymmetry suggests that political alignment primarily influences the initial partner selection process rather than the maintenance of established relationships, providing nuanced insight into the temporal boundaries of political ideology's influence on supply chain dynamics.

5. Conclusion

Political polarization has intensified remarkably across the U.S. in recent decades, extending its influence beyond social and political spheres to fundamentally shape economic decision-making. Our study examines this phenomenon through the lens of supply chain relationships, investigating how firms' political ideologies influence their inter-organizational partnerships and operational decisions.

Through comprehensive empirical analysis of supply chain relationship dynamics, we document systematic evidence that political ideology alignment significantly influences economic outcomes. Our findings reveal that shared political ideologies foster enhanced trust and cooperation, facilitating not only the formation of supply chain relationships but also driving increased innovation between suppliers and customers. Furthermore, we demonstrate that customers experience measurable improvements in operational performance and firm value following the establishment of politically aligned supply chain partnerships.

This research makes several contributions to the emerging literature on political partisanship and economic behavior. First, by focusing on supply chain dynamics, we show how political ideology shapes both partner selection and subsequent economic outcomes in business-to-business relationships. Second, we provide novel evidence that political alignment generates economic benefits through enhanced trust and operational efficiency. Third, our findings extend beyond documenting mere associations to reveal the mechanisms through which political ideology influences business interactions and decision-making processes. These insights

not only advance our understanding of the politics-business interface but also offer practical implications for firms navigating increasingly polarized business environments.

References

Addoum, J. M. and A. Kumar (2016). Political sentiment and predictable returns. *The Review of Financial Studies 29*(12), 3471–3518.

Baker, A. C., D. F. Larcker, and C. C. Wang (2022). How much should we trust staggered difference-in-differences estimates? *Journal of Financial Economics 144*(2), 370–395.

Balliet, D., J. Wu, and C. K. De Dreu (2014). Ingroup favoritism in cooperation: a meta-analysis. *Psychological bulletin 140*(6), 1556.

Banda, K. K., T. M. Carsey, and S. Severenchuk (2020). Evidence of conflict extension in partisans' evaluations of people and inanimate objects. *American Politics Research 48*(2), 275–285.

Banerjee, S., S. Dasgupta, and Y. Kim (2008). Buyer–supplier relationships and the stakeholder theory of capital structure. *The Journal of Finance 63*(5), 2507–2552.

Bonaparte, Y., A. Kumar, and J. K. Page (2017). Political climate, optimism, and investment decisions. *Journal of Financial Markets 34*, 69–94.

Bottazzi, L., M. Da Rin, and T. Hellmann (2008). Who are the active investors?: Evidence from venture capital. *Journal of Financial Economics 89*(3), 488–512.

Boxell, L., M. Gentzkow, and J. M. Shapiro (2017). Is the internet causing political polarization? evidence from demographics. Technical report, National Bureau of Economic Research.

Brewer, M. B. and K. P. Pierce (2005). Social identity complexity and outgroup tolerance. *Personality and Social Psychology Bulletin 31*(3), 428–437.

Burbano, V. C. (2021). The demotivating effects of communicating a social-political stance: Field experimental evidence from an online labor market platform. *Management Science 67*(2), 1004–1025.

Callaway, B. and P. H. Sant'Anna (2021). Difference-in-differences with multiple time periods. *Journal of Econometrics 225*(2), 200–230. Themed Issue: Treatment Effect 1.

Campello, M. and J. Gao (2017). Customer concentration and loan contract terms. *Journal of financial economics 123*(1), 108–136.

Carlin, R. E. and G. J. Love (2013). The politics of interpersonal trust and reciprocity: An experimental approach. *Political Behavior 35*, 43–63.

Cassidy, W. and B. Vorsatz (2021). Partisanship and portfolio choice: Evidence from mutual funds. *Available at SSRN 3977887*.

Cen, L. and S. Dasgupta (2021). The economics and finance of customer-supplier relationships.

Cen, L., E. L. Maydew, L. Zhang, and L. Zuo (2017). Customer–supplier relationships and corporate tax avoidance. *Journal of Financial Economics 123*(2), 377–394.

Chen, C., S. Dasgupta, T. D. Huynh, and Y. Xia (2023). Product market competition and corporate relocations: Evidence from the supply chain. *Management Science 69*(9), 5147–5173.

Chen, M. A., S. S. Hu, J. Wang, and Q. Wu (2023). Can blockchain technology help overcome contractual incompleteness? evidence from state laws. *Management Science 69*(11), 6540–6567.

Chen, T., H. Levy, X. Martin, and R. Shalev (2021). Buying products from whom you know: personal connections and information asymmetry in supply chain relationships. *Review of Accounting Studies*, 1–40.

Chow, D. Y. L., X. W. Chan, and E. Micelotta (2021). Cross-border m&as: Theorizing the negative effect of political ideology mismatch with host country labor institutional context on employee outcomes. *Journal of Business Research 128*, 164–173.

Coase, R. H. (1937). The nature of the firm. *Economica 4*(16), 386–405.

Costello, A. M. (2013). Mitigating incentive conflicts in inter-firm relationships: Evidence from long-term supply contracts. *Journal of Accounting and Economics 56*(1), 19–39.

Dagostino, R., J. Gao, and P. Ma (2023). Partisanship in loan pricing. *Journal of Financial Economics 150*(3), 103717.

Dai, R., H. Liang, and L. Ng (2021). Socially responsible corporate customers. *Journal of Financial Economics 142*(2), 598–626.

Dasgupta, S., R. Guo, X. Ren, and T. Shu (2021). Similarity breeds trust: Political homophily and ceo-board communication. *European Corporate Governance Institute–Finance Working Paper* (808).

Davenport, J. (2022). Fight abortion bans by boycotting anti-choice states. *Ms. Magazine*.

de Chaisemartin, C. and X. D'Haultfœuille (2020). Two-way fixed effects estimators with heterogeneous treatment effects. *American Economic Review 110*(9), 2964–96.

Dechow, P. (1995). Detecting earnings management. *Harvard Business School*.

DellaVigna, S. and E. Kaplan (2007). The fox news effect: Media bias and voting*. *The Quarterly Journal of Economics 122*(3), 1187–1234.

Dimant, E. (2024). Hate trumps love: The impact of political polarization on social preferences. *Management Science 70*(1), 1–31.

Druckman, J. N. and A. Lupia (2016). Preference change in competitive political environments. *Annual Review of political science 19*(1), 13–31.

Duchin, R., A. E. K. Farroukh, J. Harford, and T. Patel. (2023). The economic effects of political polarization: Evidence from the real asset market. *Available at SSRN 3497907*.

Durante, R., P. Pinotti, and A. Tesei (2019). The political legacy of entertainment tv. *American Economic Review 109*(7), 2497–2530.

Dyer, J. H. and H. Singh (1998). The relational view: Cooperative strategy and sources of interorganizational competitive advantage. *Academy of Management Review 23*(4), 660–679.

Engelberg, J., J. Guzman, R. Lu, and W. Mullins (2022). Partisan entrepreneurship. *National Bureau of Economic Research*.

Fos, V., E. Kempf, and M. Tsoutsoura (2022). The political polarization of corporate america. Technical report, National Bureau of Economic Research.

Fos, V., E. Kempf, and M. Tsoutsoura (2023). The political polarization of corporate america. *Available at SSRN 3784969*.

Freeman, K. (2023). The lender's lender: Trade credit and the monitoring role of banks. *Available at SSRN 3235838*.

Gerber, A. S. and G. A. Huber (2009). Partisanship and economic behavior: Do partisan differences in economic forecasts predict real economic behavior? *American Political Science Review 103*(3), 407–426.

Gidron, N. and D. Ziblatt (2019). Center-right political parties in advanced democracies. *Annual Review of Political Science 22*(1), 17–35.

Giglio, S., M. Maggiori, J. Stroebel, and S. Utkus (2021). Five facts about beliefs and portfolios. *American Economic Review 111*(5), 1481–1522.

Gillitzer, C. and N. Prasad (2018). The effect of consumer sentiment on consumption: Cross-sectional evidence from elections. *American Economic Journal: Macroeconomics 10*(4), 234–269.

Goette, L., D. Huffman, and S. Meier (2012). The impact of social ties on group interactions: Evidence from minimal groups and randomly assigned real groups. *American Economic Journal: Microeconomics 4*(1), 101–115.

Gormley, T. A., M. Kaviani, and H. Maleki (2022). When do judges throw the book at companies? the influence of partisanship in corporate prosecutions. *The Influence of Partisanship in Corporate Prosecutions (September 23, 2022)*.

Granovetter, M. (1985). The problem of embeddedness. *American Journal of Sociology 91*(3), 481–510.

Griffith, D. A. and M. B. Myers (2005). The performance implications of strategic fit of relational norm governance strategies in global supply chain relationships. *Journal of International Business Studies 36*, 254–269.

Grossman, S. J. and O. D. Hart (1986). The costs and benefits of ownership: A theory of vertical and lateral integration. *Journal of Political Economy 94*(4), 691–719.

Guiso, L., P. Sapienza, and L. Zingales (2009). Cultural biases in economic exchange? *The Quarterly Journal of Economics 124*(3), 1095–1131.

Gupta, A., F. Briscoe, and D. C. Hambrick (2017). Red, blue, and purple firms: Organizational political ideology and corporate social responsibility. *Strategic Management Journal 38*(5), 1018–1040.

Hart, O. and J. Moore (1990). Property rights and the nature of the firm. *Journal of Political Economy 98*(6), 1119–1158.

Hart, O. and J. Moore (1999). Foundations of incomplete contracts. *The Review of Economic Studies 66*(1), 115–138.

Hernandez-Lagos, P. and D. Minor (2015). Political identity and trust. *Harvard Business School Strategy Unit Working Paper* (16-012).

Holmström, B. and J. Roberts (1998). The boundaries of the firm revisited. *Journal of Economic Perspectives 12*(4), 73–94.

Huang, A. H., K. W. Hui, and Y. Zheng (2021). Judge ideology and opportunistic insider trading. *Journal of Financial and Quantitative Analysis*, 1–49.

Iyengar, S. and S. J. Westwood (2015). Fear and loathing across party lines: New evidence on group polarization. *American journal of political science 59*(3), 690–707.

Jaffe, A. B. (1986). Technological opportunity and spillovers of r&d: evidence from firms' patents, profits and market value.

Joyce, Y. (2020). Building trust in crisis management: a study of insolvency practitioners and the role of accounting information and processes. *Contemporary Accounting Research 37*(3), 1622–1657.

Kacperczyk, M., J. Nosal, and S. Sundaresan (2024). Market power and price informativeness. *Review of Economic Studies*, rdae077.

Kale, J. R. and H. Shahrur (2007). Corporate capital structure and the characteristics of suppliers and customers. *Journal of Financial Economics 83*(2), 321–365.

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

Kempf, E. and M. Tsoutsoura (2021). Partisan professionals: Evidence from credit rating analysts. *The Journal of Finance 76*(6), 2805–2856.

Klein, B., R. G. Crawford, and A. A. Alchian (1978). Vertical integration, appropriable rents, and the competitive contracting process. *The Journal of Law and Economics 21*(2), 297–326.

Kogan, L., D. Papanikolaou, A. Seru, and N. Stoffman (2017). Technological innovation, resource allocation, and growth. *The Quarterly Journal of Economics 132*(2), 665–712.

Kothari, S. P., A. J. Leone, and C. E. Wasley (2005). Performance matched discretionary accrual measures. *Journal of accounting and economics 39*(1), 163–197.

Krishnan, H., R. A. Winter, et al. (2012). The economic foundations of supply chain contracting. *Foundations and Trends® in Technology, Information and Operations Management 5*(3–4), 147–309.

Lafontaine, F. and M. Slade (2007). Vertical integration and firm boundaries: The evidence. *Journal of Economic Literature 45*(3), 629–685.

Laponce, J. A. (1972). In search of the stable elements of the left-right landscape. *Comparative Politics 4*(4), 455–475.

Lee, W.-J., J. Pittman, and W. Saffar (2020). Political uncertainty and cost stickiness: Evidence from national elections around the world. *Contemporary Accounting Research 37*(2), 1107–1139.

Lemyre, L. and P. M. Smith (1985). Intergroup discrimination and self-esteem in the minimal group paradigm. *Journal of Personality and Social Psychology 49*(3), 660.

Levendusky, M. S. (2022). How does local tv news change viewers' attitudes? the case of sinclair broadcasting. *Political Communication 39*(1), 23–38.

Macneil, I. R. (1983). Values in contract: internal and external. *Nw. UL Rev. 78*, 340.

Makimura, Y. and T. Yamagishi (2003). Ongoing group interaction, ingroup favoritism, and reward allocation. *Shinrigaku kenkyu: The Japanese journal of psychology 73*(6), 488–493.

Martin, G. J. and J. McCrain (2019). Local news and national politics. *American Political Science Review 113*(2), 372–384.

Martin, G. J. and A. Yurukoglu (2017). Bias in cable news: Persuasion and polarization. *American Economic Review 107*(9), 2565–99.

Mason, L. and J. Wronski (2018). One tribe to bind them all: How our social group attachments strengthen partisanship. *Political Psychology 39*, 257–277.

McCartney, W. B. and C. Zhang (2019). Short selling: Political affiliation and households' real estate decisions. Technical report, Working Paper.

McGrath, M. C. et al. (2017). Economic behavior and the partisan perceptual screen. *Quarterly Journal of Political Science 11*(4), 363–383.

Meeuwis, M., J. A. Parker, A. Schoar, and D. Simester (2022). Belief disagreement and portfolio choice. *The Journal of Finance 77*(6), 3191–3247.

Mian, A., A. Sufi, and N. Khoshkhou (2023). Partisan bias, economic expectations, and household spending. *Review of Economics and Statistics 105*(3), 493–510.

Neu, D. (1991). Trust, impression management and the public accounting profession. *Critical Perspectives on Accounting 2*(3), 295–313.

Pan, Y., E. S. Pikulina, S. Siegel, and T. Y. Wang (2024). The political polarization of corporate america. *Available at SSRN 4381330*.

Ren, X. (2020). Within-firm labor heterogeneity and firm performance: Evidence from employee political ideology conflicts. *Available at SSRN 3741089*.

Ren, Z. B., E. Dimant, and M. Schweitzer (2023). Beyond belief: How social engagement motives influence the spread of conspiracy theories. *Journal of Experimental Social Psychology 104*, 104421.

Revilla, E. and M. J. Sáenz (2014). Supply chain disruption management: Global convergence vs national specificity. *Journal of Business Research 67*(6), 1123–1135.

Rice, A. (2021). *Partisan investment cycles*. Ph. D. thesis, Arizona State University.

Riordan, M. H. and O. E. Williamson (1985). Asset specificity and economic organization. *International Journal of Industrial Organization 3*(4), 365–378.

Roccas, S. and M. B. Brewer (2002). Social identity complexity. *Personality and social psychology review 6*(2), 88–106.

Shi, Y., J. Wu, Y. Zhang, and Y. Zhou (2023). Green image management in supply chains: Strategic disclosure of corporate suppliers. *Available at SSRN 3700310*.

Sidanius, J., F. Pratto, and M. Mitchell (1994). In-group identification, social dominance orientation, and differential intergroup social allocation. *The Journal of social psychology 134*(2), 151–167.

Stolowy, H., M. Messner, T. Jeanjean, and C. Richard Baker (2014). The construction of a trustworthy investment opportunity: Insights from the madoff fraud. *Contemporary Accounting Research 31*(2), 354–397.

Sun, L. and S. Abraham (2021). Estimating dynamic treatment effects in event studies with heterogeneous treatment effects. *Journal of Econometrics 225*(2), 175–199. Themed Issue: Treatment Effect 1.

Svejnar, J. (1982). On the theory of a participatory firm. *Journal of Economic Theory 27*(2), 313–330.

Swigart, K. L., A. Anantharaman, J. A. Williamson, and A. A. Grandey (2020). Working while liberal/conservative: A review of political ideology in organizations. *Journal of Management 46*(6), 1063–1091.

Sztompka, P. (1999). *Trust: A sociological theory*. Cambridge University Press.

Tajfel, H. E. (1978). *Differentiation between social groups: Studies in the social psychology of intergroup relations.* Academic Press.

Wang, W., C. Shan, and M. MIN (2022). Credit tightening and misallocation along supply chains. *Available at SSRN 4159053*.

Weed, F. J. (1979). 3. industrialization and welfare systems: A critical evaluation of the convergence hypothesis. *International Journal of Comparative Sociology 20*(3-4), 282–292.

Williamson, M. G. (2008). The effects of expanding employee decision making on contributions to firm value in an informal reward environment. *Contemporary Accounting Research 25*(4), 1183–1209.

Williamson, O. E. (1979). Transaction-cost economics: the governance of contractual relations. *The Journal of Law and Economics 22*(2), 233–261.

Zucker, L. G. (1986). Production of trust: Institutional sources of economic structure, 1840–1920. *Research in Organizational Behavior*.

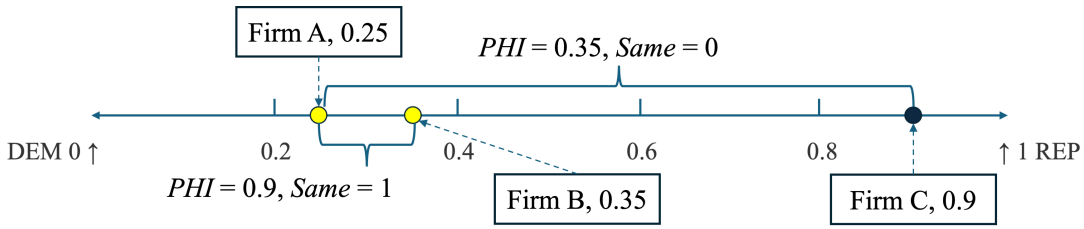

Figure 1. Political Ideology Spectrum

This figure illustrates the political spectrum. We divide the spectrum of political ideology into five intervals: 0-0.2, 0.2-0.4, 0.4-0.6, 0.6-0.8, and 0.8-1, representing "left-wing", "center-left", "centrism", "center-right", and "right-wing", where 0 and 1 indicate entire affiliation to Democratic and Republican, respectively. Firms A, B, and C have $PoliScore$ of 0.25, 0.35, and 0.9, respectively. Firm A and B are situated in the domain of 0.2-0.4 ("center-left"), $Same_{A,B}$ equals 1, and the associated $PHI_{A,B}$ is 0.9 $(1 - |0.25 - 0.35|)$. Firms A and C, are far apart on the political spectrum ("center-left" versus "right-wing"), $Same_{A,C}$ equals 0, and $PHI_{A,C}$ equals 0.35.

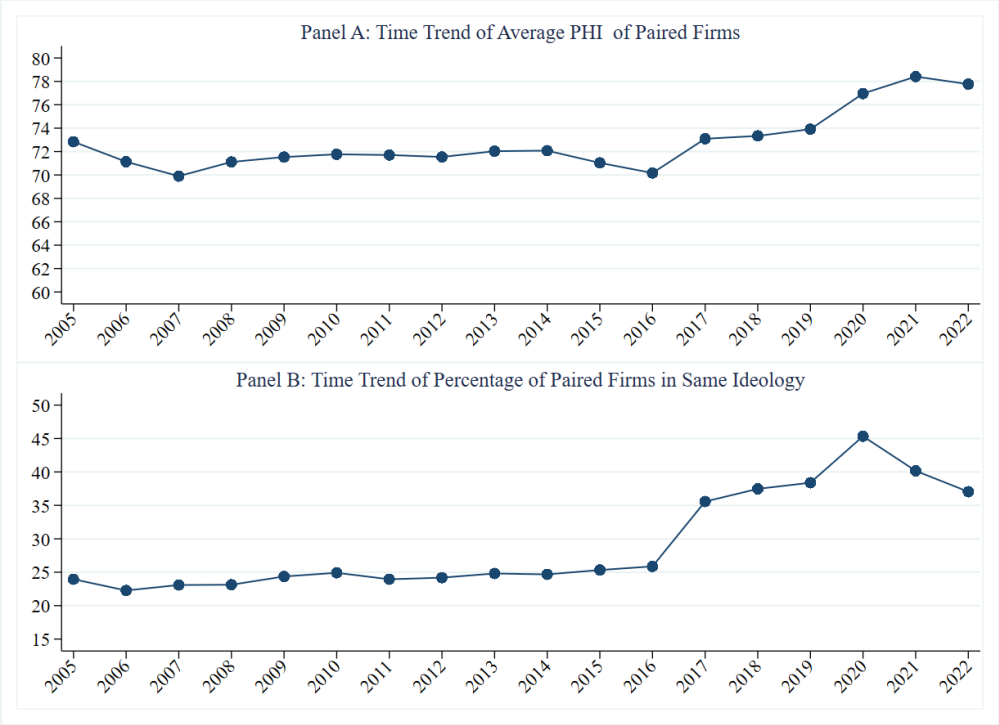

Figure 2. Time Trend

This figure presents the evolution of political ideology alignment in supplier-customer relationships over time. Panel A plots the yearly mean values of the continuous measure (PHI) across all realized supply chain pairs. Panel B shows the corresponding annual averages of the binary alignment indicator ($Same$), reflecting the proportion of partnerships sharing similar political ideologies. These time series patterns provide insight into how political alignment in supply chain relationships has evolved throughout our sample period.

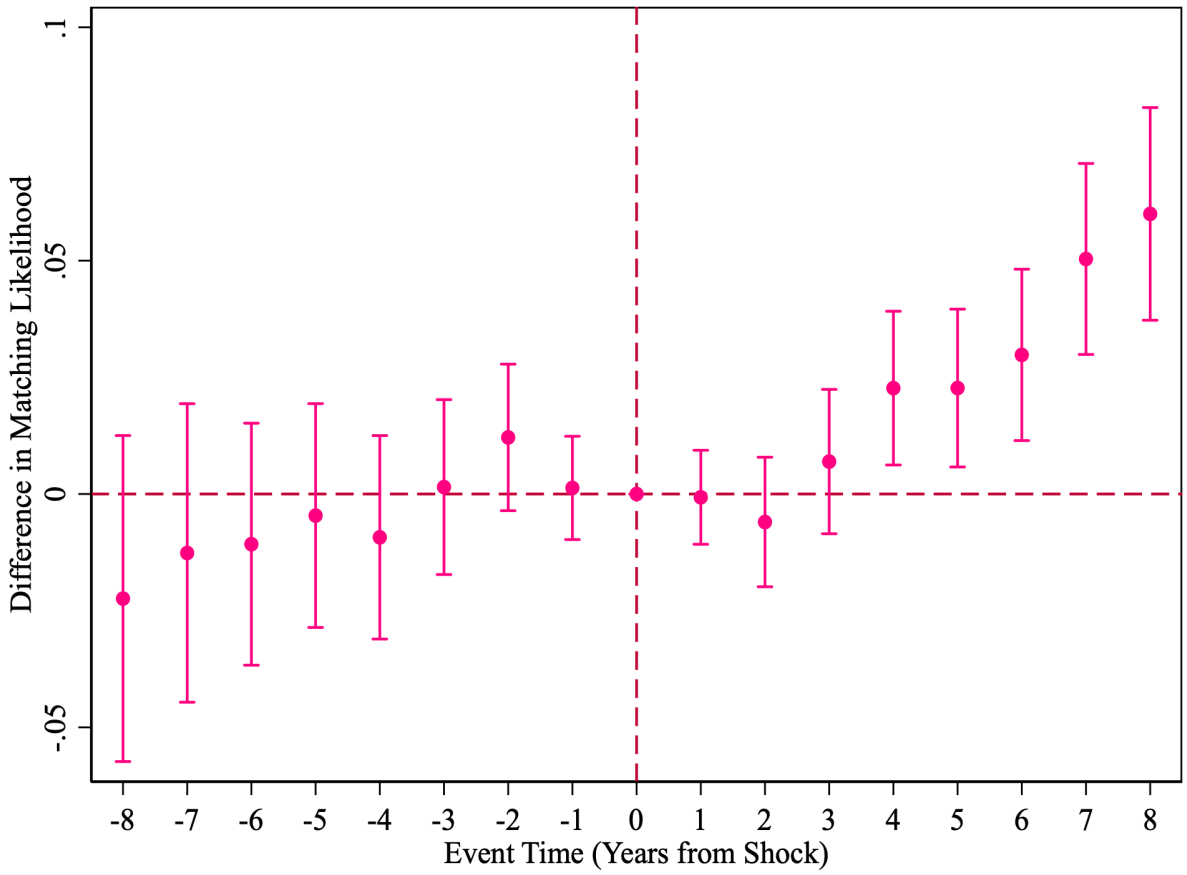

Figure 3. Dynamic Effect of Sinclair Entry on Supply Chain Matching

This demonstrates the parallel trend of the coefficients for the triple-difference term and the associated two-tailed 95% confidence intervals. The regression includes event × supplier, event × customer, and event × year fixed effects. Control variables are consistent with Table 7. Standard errors are clustered at the supplier-customer level.

Table 1. Descriptive Statistics

	N	μ	σ	25^{th}%ile	50^{th}%ile	75^{th}%ile
Panel A: In Supply Chain Pairs and Potential Pairs						
On Chain	1,649,563	0.071	0.256	0.000	0.000	0.000
Distance	1,649,563	6.542	1.442	6.091	6.913	7.578
Political Ideology						
PHI	1,649,563	0.724	0.233	0.588	0.789	0.912
Same	1,649,563	0.319	0.466	0.000	0.000	1.000
PHI^{CEO}	353,839	0.574	0.380	0.202	0.649	0.984
$\text{PoliScore}^{\text{Sup}}$	1,649,563	0.353	0.297	0.102	0.273	0.556
$\text{PoliScore}^{\text{Cus}}$	1,649,563	0.374	0.290	0.133	0.310	0.580
Suppliers						
Sup Asset	1,649,563	7.803	2.071	6.401	7.741	9.127
Sup Leverage	1,649,563	0.591	0.282	0.405	0.574	0.734
Sup ROA	1,649,563	-0.008	0.181	-0.027	0.035	0.076
Sup Tobin's Q	1,649,563	2.468	1.946	1.305	1.802	2.831
Customers						
Cus Asset	1,649,563	8.507	2.130	7.002	8.559	10.109
Cus Leverage	1,649,563	0.636	0.265	0.475	0.629	0.771
Cus ROA	1,649,563	0.008	0.156	-0.009	0.039	0.078
Cus Tobin's Q	1,649,563	2.264	1.725	1.226	1.652	2.609
Panel B: In Supply Chain Pair						
Relationship Specific						
CiteDum_{t+1}	116,788	0.053	0.224	0.000	0.000	0.000
$\text{CiteFrequency}_{t+1}$	116,788	0.103	0.527	0.000	0.000	0.000
$\text{NumCitedPatent}_{t+1}$	116,788	0.088	0.451	0.000	0.000	0.000
$\text{NumNotCitedPatent}_{t+1}$	116,788	1.320	2.113	0.000	0.000	2.197
Receivable Shares(%)	323	19.342	11.418	12.000	16.600	24.000

This table presents summary statistics for our main variables. The detailed definitions of the variables can be referred to in Table A.1 in the Appendix. The sample includes all the U.S. headquartered public firms on the supply chain as documented by FactSet from 2005 to 2022, with non-missing values of PHI and firms' fundamental variables. All control variables are winsorized at 1% and 99% levels.

Table 2. The Probability To be On Supply Chain

	(1)	(2)	(3)
	Dependent Variable: On Chain		
PHI	0.016***	0.020***	0.019***
	(11.02)	(11.77)	(12.57)
Distance	-0.006***	-0.005***	
	(-18.77)	(-17.38)	
SupChar			
Sup Asset	0.001*		
	(1.66)		
Sup Leverage	-0.003*		
	(-1.88)		
Sup ROA	0.007***		
	(3.72)		
Sup Tobin's Q	0.001***		
	(4.31)		
CusChar			
Cus Asset	0.006***		
	(7.07)		
Cus Leverage	-0.000		
	(-0.01)		
Cus ROA	-0.002		
	(-1.23)		
Cus Tobin's Q	-0.000*		
	(-1.66)		
Year FE	Yes	No	Yes
Supplier FE	Yes	No	Yes
Customer FE	Yes	No	Yes
Year × Supplier FE	No	Yes	No
Year × Customer FE	No	Yes	No
N	1,649,563	1,647,595	1,649,563
Adj. R^2	0.128	0.169	0.127

This table reports the effect of political homophily on the matching between suppliers and customers. The observations are on the supplier-customer-year level. The dependent variable $OnChain_{i,j,t}$ is a dummy that equals 1 if the focal firm i (supplier) and potential customer j form a supply chain relationship in year t, 0 if the firm j is not a customer of the focal firm i but is disclosed as a competitor by i's real customers. The main independent variables of interest, PHI equals one minus the absolute difference between $PoliScore$ of the firm pair. We incorporate a cluster of firm-level and pair-level control variables for the focal firm and potential customers, including the supplier's and customer's log value of total assets, leverage, ROA, Tobin's Q, and log value of the geographical distance between firm pairs. The detailed definitions of variables can be referred to in Table A.1 in the Appendix. All control variables are winsorized at 1% and 99% levels. Standard errors are clustered at the supplier-customer level. t-values are shown in parentheses. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

Table 3. PHI and Cross-Sectional Variation of Information Asymmetry

	(1)	(2)	(3)	(4)	(5)
	Dependent Variable: On Chain				
Long Distance	-0.020***				
	(-9.59)				
PHI × Long Distance	0.011***				
	(4.06)				
High Size Difference		0.018***			
		(5.89)			
PHI × High Size Difference		0.015***			
		(3.97)			
Low Sup HHI			-0.004*		
			(-1.67)		
PHI × Low Sup HHI			0.009***		
			(3.53)		
High Sup ASI				-0.007**	
				(-2.87)	
PHI × High Sup ASI				0.011***	
				(3.69)	
Low Sup AC					-0.001
					(-0.96)
PHI × Low Sup AC					0.005***
					(2.66)
PHI	0.012***	0.014***	0.012***	0.013***	0.014***
	(5.50)	(9.27)	(5.93)	(5.89)	(7.44)
Controls	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes
Supplier FE	Yes	Yes	Yes	Yes	Yes
Customer FE	Yes	Yes	Yes	Yes	Yes
N	1,649,563	1,649,563	1,649,563	1,148,518	1,649,563
Adj. R^2	0.127	0.129	0.128	0.133	0.128

This table presents the heterogeneous effect of political homophily on the matching between suppliers and customers. The observations are at the supplier-customer-year level. The dependent variable $OnChain_{i,j,t}$ is a dummy variable that equals one if the focal firm i (supplier) and potential customer j establish a supply chain relationship in year t, and zero if firm j is not a customer of firm i but is identified as a competitor by i's actual customers. The main independent variable of interest, PHI, is defined as one minus the absolute difference between the $PoliScore$ of the firm pair. We interact five dummy variables with PHI: (1) *Long Distance*, which equals one if the logarithm of one plus the geographical distance between pair *i-j* exceeds the median, and 0 otherwise; (2) $High\ Size\ Difference$, a dummy indicating whether the relative total asset difference between the supplier and customer falls within the top or bottom deciles (Top 10% or Bottom 10%); (3) *Low Sup HHI*, which equals one if the focal supplier i's HHI is above the median, and 0 otherwise; (4) *High Sup ASI*, which equals one if the focal supplier i's Asset Specificity Index from (Chen et al., 2023) is above the median (data available from 2011 to 2021); and (5) *Low Sup AC*, which equals one if the focal supplier i's accounting quality is below the median of the sample (Dechow, 1995; Kothari et al., 2005). Control variables are consistent with those in Table 2. Standard errors are clustered at the supplier-customer level. t-values are shown in parentheses. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

Table 4. PHI and Trade Credit

Dependent Variable:	Receivable Shares (%) (1)	Ln(Total Trade Receivable) (2)
PHI	7.329**	0.026***
	(2.53)	(4.28)
Controls	Yes	Yes
Year FE	Yes	Yes
Supplier FE	Yes	Yes
Customer FE	Yes	Yes
N	343	106,010
Adj. R^2	0.614	0.985

This table reports the effect of political homophily on the trade credits along the supply chain. The observations are on the supplier-customer-year level. In Column 1, the dependent variable is the percentage of customer-specific account receivables (trade credit) extracted from the supplier's 10-K. In Column 2, the dependent variable is the log value of the total account receivable. The main independent variables of interest, PHI equals one minus the absolute difference between $PoliScore$ of the firm pair. We incorporate a cluster of firm-level and pair-level control variables for the focal firm and customers consistent with Table 2 (Column 1 also includes the percentage of customer-specific sales in percentage as the control variable). The detailed definitions of variables can be referred to in Table A.1 in the Appendix. Standard errors are clustered at the supplier-customer level. t-values are shown in parentheses. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

Table 5. PHI and Patents

Dependent Variable:	CiteDum_{t+1} (1)	$\text{CiteFrequency}_{t+1}$ (2)	$\text{NumCitedPatent}_{t+1}$ (3)	$\text{NumNotCitedPatent}_{t+1}$ (4)
PHI	0.016***	0.045***	0.041***	-0.054***
	(4.09)	(4.64)	(4.93)	(-3.13)
Controls	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Supplier FE	Yes	Yes	Yes	Yes
Customer FE	Yes	Yes	Yes	Yes
N	116,788	116,788	116,788	116,788
Adj. R^2	0.345	0.306	0.311	0.844

This table reports the effect of political homophily on relationship-specific investments along the supply chain. The observations are on the supplier-customer-year level. $CiteDum_{i,j,t+1}$ equals 1 if focal firm (supplier) i cites customer j's patents in year $t+1$, and 0 otherwise. $CiteFrequency_{i,j,t+1}$ denotes the log value of one plus the times the focal firm (supplier) i cites customer j's patents in year $t+1$. $NumCitedPatent_{i,j,t+1}$ equals the log value of one plus the number of patents of customer j cited by the focal firm (supplier) i in year $t+1$. $NumNotCitedPatent_{i,j,t+1}$ equals the log value of one plus the number of patents of customer j *not* cited by the focal firm (supplier) i in year $t+1$. The main independent variables of interest, PHI equals one minus the absolute difference between $PoliScore$ of the firm pair. Control variables are consistent with Table 2. The detailed definitions of variables can be referred to in Table A.1 in the Appendix. Standard errors are clustered at the supplier-customer level. t-values are shown in parentheses. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

Table 6. PHI and Customer Performance

Dependent Variable:	Customer's Tobin's Q	Customer's ROA
	(1)	(2)
Panel A: Customer-Level Event Study		
PHI × Post	0.054**	0.004**
	(2.14)	(2.46)
PHI	-0.009	-0.001
	(-0.56)	(-0.89)
Post	-0.050**	-0.004***
	(-2.55)	(-2.79)
Distance	-0.049*	0.001
	(-1.66)	(0.27)
Controls	Yes	Yes
Year FE	Yes	Yes
Customer FE	Yes	Yes
N	159,718	159,750
Adj. R^2	0.81	0.58
Panel B: Pair-Level Regression		
PHI	0.058***	0.003**
	(3.51)	(2.02)
Controls	Yes	Yes
Year FE	Yes	Yes
Supplier FE	Yes	Yes
Customer FE	Yes	Yes
N	81,768	81,464
Adj. R^2	0.78	0.59

This table reports the effect of political homophily on customers' performance. In Panel A, we conduct event studies in the spirit of Chen et al. (2021) by comparing the customers' performance before and post the formation of politically aligned suppliers. The observations in Panel A are on the customer-year level and include samples from -5 years to 5 years relative to the formation year. In Panel B, we run pair-level regressions following Freeman (2023). The observations in Panel B are on the supplier-customer-year level and include all samples of realized supply chain relationships. In both panels, we the dependent variables are Tobin's Q and ROA of the customer. *PHI* equals one minus the absolute difference between *PoliScore* of the firm pair. *Post* in Panel A indicates years after the formation of supply chain relationships. Control variables are consistent with Table 2. The detailed definitions of variables can be referred to in Table A.1 in the Appendix. Standard errors are clustered at the customer level at Panel A and the supplier-customer level at Panel B. t-values are shown in parentheses. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

Table 7. Sinclair Entry and Supply Chain Matching

	(1)	(2)
Dependent Variable: On Chain		
Treat × Post × CusMoreRep	0.021***	0.019***
	(2.96)	(2.44)
Treat × CusMoreRep	-0.026***	-0.015**
	(-3.30)	(-1.98)
Post × CusMoreRep	-0.005	-0.006*
	(-1.40)	(-1.68)
CusMoreRep	0.009**	0.009*
	(2.08)	(1.66)
Treat × Post	-0.014**	-0.010*
	(-2.39)	(-1.83)
Post	0.005**	
	(2.05)	
Treat	0.580	
	(1.55)	
Controls	Yes	Yes
Year FE	Yes	No
Supplier FE	Yes	No
Customer FE	Yes	No
Event × Year FE	No	Yes
Event × Supplier FE	No	Yes
Event × Customer FE	No	Yes
N	368,265	365,923
Adj. R^2	0.129	0.218

This table presents the regression results of Sinclair's entry and formation of supply chain relationships. The observations are on the supplier-customer-year level. *Treat* is a dummy variable equaling 1 if suppliers experience the entry of Sinclair in its DMA. *Post* is a dummy variable indicating the post-shock period. *CusMoreRep* is a dummy that equals 1 if the political ideology score of the customer is more aligned with Republican in the year before the entry, i.e., the customer's political ideology score is greater than that of the supplier thus the shock shrinks the relative political divergence. We incorporate a cluster of firm-level and pair-level control variables for the focal firm and customers, including the natural logarithm of total asset, leverage, ROA, Tobin's Q, and geographical distance between firms i and j. The detailed definitions of variables can be referred to in Table A.1 in the Appendix. Standard errors clustered at the supplier-customer level are shown in parentheses. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

Table 8. CEO PHI, Employee PHI, and the Probability To be On Supply Chain

	(1)	(2)	(3)
	Dependent Variable: On Chain		
PHI^{Emp}	0.008**	0.009***	
	(2.46)	(2.87)	
PHI^{CEO}	0.002		0.004**
	(1.32)		(1.99)
Controls	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
Supplier FE	Yes	Yes	Yes
Customer FE	Yes	Yes	Yes
N	331,956	331,956	331,956
Adj. R^2	0.128	0.128	0.128

This table repeats Regression (1) by including the PHI measures derived from employee dollar contributions (PHI^{Emp}) and CEO dollar contributions (PHI^{CEO}). PHI^{CEO} is calculated by the dollar contributions of the firms' CEO in the past four years. PHI^{Emp} captures political alignment using dollar-amount contributions from the entire employee base other than the CEO in the past four years. We restrict the sample to observations having both PHI^{Emp} and PHI^{CEO}. Control variables are consistent with Table 2. Standard errors are clustered at the supplier-customer level. t-values are shown in parentheses. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

Table A.1. Key Variables and Definitions

Variables	Definitions
Political ideology related variables	
$\text{PoliScore}^{\text{Num}}$	The political ideology score of the firm, calculated as the number of employees who contribute to Republicans scaled by the total number of employees who have made contributions in the past four years. Unless otherwise stated, we use $PoliScore$ to represent $PoliScore^{Num}$.
$\text{PoliScore}^{\text{Contri}}$	The political ideology score of the firm, calculated as the dollar amount of contributions made by the employees to Republicans scaled by the total dollar amount of contributions that have been made by the employees in the past four years.
PHI	The political homophily index of a supplier-customer pair. We calculate the index by one minus the absolute difference of $PoliScore^{Num}$ between a pair of supplier and customer.
PHI^{CEO}	The political homophily index of CEOs of a supplier-customer pair. We calculate the index by one minus the absolute difference of $PoliScore^{Contri}$ between the CEOs of a pair of supplier and customer. In this scenario, $PoliScore^{Contri}$ is calculated as the dollar amount of contributions made by the CEO to Republicans scaled by the total dollar amount of contributions that have been made by the CEO in the past four years.
PHI^{Emp}	The political homophily index of employees other than the CEOs of a supplier-customer pair. We calculate the index by one minus the absolute difference of $PoliScore^{Contri}$ between non-CEO employees of a pair of supplier and customer. In this scenario, $PoliScore^{Contri}$ is calculated as the dollar amount of contributions made by the non-CEO employees to Republicans scaled by the total dollar amount of contributions that have been made by the non-CEO employees in the past four years.
$\text{PHI}^{\text{Contri}}$	The political homophily index of a supplier-customer pair constructed by dollar amount contributions. We calculate the index by one minus the absolute difference of $PoliScore^{Contri}$ between a pair of supplier and customer.
Same	An indicator equals 1 if $PoliScore^{Num}$ for a pair of supplier and customer lie in the same interval on the political ideology spectrum, i.e., 0-0.2, 0.2-0.4, 0.4-0.6, 0.6-0.8, 0.8-1, and 0 otherwise.
Supply chain relationship	
OnChain	A dummy that equals 1 if the focal supplier and potential customer form a supply chain relationship, and 0 if the firm is not a customer of the supplier but is disclosed as a competitor by the focal supplier's real customers.
Supplier characteristics	
Sup Asset	Supplier's log value of total assets.
Sup Leverage	Supplier's leverage ratio, i.e., total liabilities scaled by total common equity.
Sup ROA	Supplier's return on asset, i.e., net income scaled by total asset.
Sup Tobin's Q	Supplier's Tobin's Q, i.e., total asset less total common equity plus market price times total shares outstanding, divided by the total asset.
Ln(Total Trade Receivable)	Log value of one plus the supplier's total account receivable.
Customer characteristics	
Cus Asset	Customer's log value of the total asset.

Continued on next page

Table A.1 Continued from previous page

Variables	Definitions
Cus Leverage	Customer's leverage ratio, i.e., total liabilities scaled by total common equity.
Cus ROA	Customer's return on asset, i.e., operating income after depreciation scaled by total asset.
Cus Tobin's Q	Customer's Tobin's Q, i.e., total asset less total common equity plus market price times total shares outstanding, divided by total assets.
Cross-Sectional Tests	
Long Distance	A dummy variable that equals 1 if the log value of one plus geographical distance of pair i-j is over the median, 0 otherwise.
High Size Difference	A dummy indicating the relative total asset difference between supplier and customer is in top or bottom deciles (Top 10% or Bottom 10%).
Low Sup HHI	A dummy that equals 1 if focal supplier i's Herfindahl-Hirschman Index is over the median of the sample, 0 otherwise. Herfindahl-Hirschman Index is calculated as the sum of the squared market share of a 4-digit SIC industry in a given year. Market share is the fraction of total sales scaled by summing up the overall sales in the 4-digit SIC industry.
High Sup ASI	A dummy that equals 1 if focal supplier i's Asset Specificity Index from Chen et al. (2023) is over the median of the sample (data available from 2011 to 2021).
Low Sup AC	A dummy that 1 if focal supplier i's accounting quality is lower than the median of the sample. Accounting quality is constructed following Dechow (1995) and Kothari et al. (2005).
Relationship Specific	
Distance	Log value of one plus the geographical distance between a supplier-customer pair.
CiteNum	Log value of one plus the times the focal firm (supplier) cites customer's patents in application year $t+1$.
CiteDum	A dummy variable that equals 1 if the focal firm (supplier) cites customer's patents in application year $t+1$, and 0 otherwise.
NumCitedPatent	The number of Supplier's patents which cite the paired customer's patents in application year $t+1$.
NumNotCitedPatent	The number of Supplier's patents which do not cite the paired customer's patents in application year $t+1$.
Receivable Shares(%)	The percentage of customer-specific account receivables (trade credit) disclosed by suppliers in 10-K filing.
CusMoreRep	A dummy that equals 1 if the political ideology score of the customer is more aligned with Republican in the year before the Sinclair entry, i.e., the customer's political ideology score is greater than that of the supplier thus the shock shrinks the relative political divergence.

Table A.2. Ex-ante Supplier Characteristics Before Sinclair Entry

	Treat	Control	P-value (Treat vs Control)	Baseline Economic Significance
PoliScore	0.486	0.451	0.257	-
Ln(Total Assets)	6.803	6.805	0.994	1.63%**
Tobin's Q	1.993	1.942	0.653	0.76%***
Leverage	0.497	0.559	0.020**	-0.33%
ROA	0.008	-0.024	0.090*	0.32%**

This table compares the characteristics of suppliers between treatment and control groups, aligned with respective economic significance. Columns 1 and 2 report the characteristics in the year before the shock of treatment and control groups, respectively. Column 3 reports the p-value of the difference between Columns 1 and 2. Column 4 presents the associated economic significance for each characteristic in the baseline regression of Table 2. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

Table A.3. Sinclair Entry and Political Ideology Score

Panel A: Political Ideology Score Level		
	(1)	(2)
Dependent Variable: PoliScore		
Treat × Post	0.065**	0.059**
	(2.11)	(2.51)
Controls	Yes	Yes
Firm FE	Yes	No
Time FE	Yes	No
Event × Firm FE	No	Yes
Event × Time FE	No	Yes
N	1,316	1,296
Adj. R^2	0.532	0.536
Panel B: Political Ideology Score Change		
Dependent Variable: ΔPoliScore		
Treat	0.063***	0.059**
	(2.92)	(2.52)
Controls	Yes	Yes
Event FE	No	Yes
N	658	651
Adj. R^2	0.016	0.077

This table presents the entropy balancing regression results of Sinclair's entry and firm's political ideology score. The observations are on the firm-year level. In Panel A, the dependent variable *PoliScore* is calculated with contributions data in a four-year window ex-post and ex-ante relative to the shock year. In Panel B, the dependent variable Δ*PoliScore* equals the difference between the two political ideology scores constructed in the two windows. *Treat* is a dummy variable equaling 1 if suppliers experience the entry of Sinclair in its DMA. *Post* is a dummy variable indicating the post-shock period. We incorporate a cluster of firm-level control variables for the focal firms, including the natural logarithm of total asset, leverage, ROA, Tobin's Q. The detailed definitions of variables can be referred to in Table A.1 in the Appendix. Standard errors clustered at the shock event level are shown in parentheses. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

Table A.4. Sinclair Entry and Supply Chain Matching (Entropy Balancing)

	(1)	(2)
Dependent Variable: On Chain		
Treat × Post × CusMoreRep	0.022***	0.018**
	(3.00)	(2.44)
Treat × CusMoreRep	-0.024***	-0.015**
	(-3.05)	(-1.98)
Post × CusMoreRep	-0.005	-0.007*
	(-1.17)	(-1.68)
CusMoreRep	0.009**	0.009*
	(2.08)	(1.66)
Treat × Post	-0.014**	-0.010*
	(-2.39)	(-1.83)
Post	0.002	
	(0.47)	
Treat	0.575	
	(1.54)	
Controls	Yes	Yes
Year FE	Yes	No
Supplier FE	Yes	No
Customer FE	Yes	No
Event × Year FE	No	Yes
Event × Supplier FE	No	Yes
Event × Customer FE	No	Yes
N	365,550	365,550
Adj. R^2	0.119	0.239

This table presents the entropy balancing regression results of Sinclair's entry and formation of supply chain relationships. The observations are on the supplier-customer-year level. $Treat$ is a dummy variable equaling 1 if suppliers experience the entry of Sinclair in its DMA. *Post* is a dummy variable indicating the post-shock period. $CusMoreRep$ is a dummy that equals 1 if the political ideology score of the customer is more aligned with Republican in the year before the entry, i.e., the customer's political ideology score is greater than that of the supplier thus the shock shrinks the relative political divergence. The observations are assigned with different weights by entropy balancing with the supplier's total asset and Tobin's Q in the year before the shock. We incorporate a cluster of firm-level and pair-level control variables for the focal firm and customers, including the natural logarithm of total asset, leverage, ROA, Tobin's Q, and geographical distance between firms i and j. The detailed definitions of variables can be referred to in Table A.1 in the Appendix. Standard errors clustered at the supplier-customer level are shown in parentheses. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

Table A.5. Alternative Measures and Samples

Panel A: Alternative Political Ideology Measures		
	(1)	(2)
Dependent Variable: On Chain		
Same	0.005***	
	(7.65)	
PHI^{Contri}		0.010***
		(8.07)
Distance	-0.006***	-0.006***
	(-19.01)	(-18.91)
Controls	Yes	Yes
Year FE	Yes	Yes
Supplier FE	Yes	Yes
Customer FE	Yes	Yes
N	1,649,563	1,649,563
Adj. R^2	0.128	0.128

Panel B. Exclude Swing Voters	
	(1)
Dependent Variable: On Chain	
PHI	0.018***
	(11.22)
Distance	-0.005***
	(-17.14)
Controls	Yes
Year FE	Yes
Supplier FE	Yes
Customer FE	Yes
N	1,164,671
Adj. R^2	0.13

This table repeats Regression (1) with alternative PHI measures and samples. In Panel A, we use alternative measures of PHI. Specifically, in Column 1, $Same_{i,j,t}$ equals 1 if the $PoliScore$ of the focal firm i and customer j in year t lie in the same interval on the political ideology spectrum, and 0 otherwise. In Column 2, PHI^{Contri} is calculated by the $PoliScore$ constructed in dollar amount. In Panel B, we exclude all swing voter firms. Control variables are consistent with Table 2. The detailed definitions of variables can be referred to in Table A.1 in the Appendix. Standard errors are clustered at the supplier-customer level. t-values are shown in parentheses. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

Table A.6. The Entry and Exit of Supply Chain Relationships

Dependent Variable:	**Entry=1** (1)	**End=1** (2)
PHI	0.004***	0.004
	(8.62)	(0.52)
Controls	Yes	Yes
Year FE	Yes	Yes
Supplier FE	Yes	Yes
Customer FE	Yes	Yes
N	1,598,400	99,307
Adj. R^2	0.049	0.287

This table reports the effect of political homophily on entry into and exit from supply chain relationships. Column 1 restricts the sample to the first-time matching in the sample to avoid bias from past relationships, i.e., if firm j becomes supplier i's customer in year t, then the i-j pair is removed from regression in all the following years after year t. The dependent variable $Entry_t$ equals 1 if supply chain relationships are formed in year $t+1$. In Column 2, we restrict the sample to the firms with existing pairs, the dependent variable $Exit_t$ equals 1 if pairs stop the supply relationships in year $t+1$. The main independent variables of interest, PHI equals one minus the absolute difference between $PoliScore$ of the firm pair. Control variables are consistent with Table 2. Standard errors are clustered at the supplier-customer level. t-values are shown in parentheses. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.