

Partisan Bias in Venture Capital Financing

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First version: 5th November 2024

Current version: 31st May 2025

Abstract

This study investigates the effects of political homophily between venture capital (VC) partners and company CEOs on investment decisions and outcomes. Using a comprehensive dataset of U.S. VC investments matched with political donation records from 2000 to 2021, we find that political similarity increases the likelihood of investment but negatively impacts exit performance, lowering IPO and M&A success rates and delaying exits. These findings support the in-group favoritism explanation. Shared partisanship promotes trust and collaboration but can lead to overconfidence and groupthink that deteriorates exit performance. Alignment with the broader political environment (e.g., the incumbent government or local political preferences) can mitigate these effects by enhancing legitimacy and access to resources. Our analysis of investment structure shows that politically aligned CEO-VC pairs favor early-stage, first-round, non-syndicated deals, yet experience slower follow-on financing and longer intervals between rounds. These findings offer novel insights into how ideological alignment influences venture investment behavior and performance with implications for entrepreneurs, investors, and policymakers.

JEL Codes: D72, G24, L14, L26, M13

Keywords: Partisanship, Political homophily, Exit performance, Venture capital

* We are grateful for the helpful comments and suggestions of colleagues in the Accounting and Finance Division at Leeds University Business School, Melissa Crumling (discussant) and participants at Financial Management & Accounting Research Conference (FMARC) 2025, and the LUBS Doctoral Conference in 2023. This paper is accepted and scheduled for presentation at FMA European 2025 and EFMA 2025 in June 2025. Email addresses: bnww@leeds.ac.uk (Wanji Wu), e.symitsi@leeds.ac.uk (Efthymia Symitsi), k.bozos@leeds.ac.uk (Konstantinos Bozos).

1 Introduction

Existing research highlights the importance of political alignment in shaping economic outcomes across various domains, such as mutual fund performance, corporate lending, mergers and acquisitions, and governance decisions (e.g., [Wintoki and Xi, 2020](#); [Kempf and Tsoutsoura, 2021](#); [Dagostino et al., 2023](#); [Kempf et al., 2023](#); [Duchin et al., 2024](#), among others).¹ Yet, little is known about the role of political alignment in the venture capital (VC) industry, which relies heavily on trust, long-term relationships, and active investor involvement. A recent example from the financial press illustrates a potential influence. In particular, Narya Capital, cofounded by J.D. Vance (who later became Vice President in the 2024 United States Republican presidential administration) made prominent investments in Rumble, a video platform popular among right-leaning users.² This example underscores how ideological alignment can shape investment priorities, particularly in environments where trust and shared values play critical roles in decision-making.

This study fills the knowledge gap by investigating how political homophily between VC investors and their portfolio companies affects investment decision-making and subsequent venture performance. Unlike traditional capital providers, VC investors take hands-on roles in guiding startups through critical development stages and milestones, providing strategic advice, operational oversight, and mentorship until exit ([Hellmann and Puri, 2002](#); [Kaplan and Strömberg, 2004](#); [Bottazzi et al., 2008](#)). This distinctive involvement makes the VC industry a particularly compelling context to examine whether and how political alignment influences collaboration and performance outcomes.

Drawing on insights from sociology and political science which emphasize the increasing political homogeneity in social relationships ([Alford et al., 2011](#); [Huber and Malho-](#)

¹Other studies exploring the effects of political (mis)alignment on economic activities have also examined firm valuations ([Lee et al., 2014](#)), innovation productivity ([Engelberg et al., 2023](#)), corporate disclosures ([Arikan et al., 2023](#)), investment decisions ([Rice, 2024](#)), and crash risk ([Dasgupta et al., 2024](#)).

²Keach Hagey, “Peter Thiel, J.D. Vance Invest in Rumble Video Platform Popular on Political Right,” The Wall Street Journal, May 19, 2021, <https://www.wsj.com/articles/peter-thiel-j-d-vance-invest-in-rumble-video-platform-popular-on-political-right-11621447661>.

tra, 2017; Iyengar et al., 2018), we argue that political alignment between VCs and entrepreneurs may facilitate trust by signaling shared values and reducing perceived differences. Establishing trust is especially critical in venture investments, which involve high stakes, information asymmetry and reputational risks for investors (Bottazzi et al., 2016). Political homophily may, thus, serve as a means to build trust and cooperation. However, the economic impact of political homophily remains ambiguous. On one hand, political alignment may strengthen collaboration and enhance investment performance by aligning goals and facilitating information flow, consistent with the information channel perspective (Spence, 1973; Hochberg et al., 2007; Garfinkel et al., 2024). On the other hand, political homophily could promote in-group favoritism, reducing diversity of thought, encouraging groupthink and impairing decision-making processes, in line with the “cost of friendship” argument (Gompers et al., 2016; Bengtsson and Hsu, 2015).

Our study also considers how further alignment with the external political environment might interact with these VC-portfolio company dynamics. Beyond individual relationships, the broader political environment, such as the ruling government or the local political pressures, could shape economic behavior and investment outcomes. Existing studies highlight that political alignment can influence optimism, resource allocation, and firm performance (Bonaparte et al., 2017; Kempf et al., 2023). For example, companies aligned with the external political environment often benefit from increased access to resources and favorable regulatory conditions. Similarly, firms tend to adapt to the prevailing cultural and ideological norms (Hutton et al., 2014). In the VC context, we hypothesize that external political alignments may amplify the trust benefits of political homophily or mitigate the adverse effects of in-group favouritism through legitimacy and resources.

To test these hypotheses, we develop a Political Homophily Index (*PHI*) to measure the degree of political alignment between VC partners and company CEOs using individual political donation data from the U.S. Federal Election Commission (FEC). Our

dataset spans U.S.-based VC investments from 2000 to 2021, supplemented by biographical data for CEOs and venture capital partners from BoardEx, Capital IQ, LinkedIn or hand-collected from online sources. The final dataset yields 37,717 investment deals involving 2,516 VC firms, 16,484 active partners, 9,138 portfolio companies, and 9,820 unique CEOs. We then perform empirical analyses to investigate three primary aspects: (i) the likelihood of a VC firm investing in a company (realized deal) based on shared partisanship, (ii) the success of those investments measured by exit outcomes (IPOs or acquisitions) and time to exit, and (iii) how the effect of political homophily interacts with the external political alignments.

To explore whether political homophily influences the likelihood of investment decisions, we employ a counterfactual approach similar to [Hegde and Tumlinson \(2014\)](#) and [Garfinkel et al. \(2024\)](#). In so doing, we construct the counterfactual pairs for each realized deal by selecting matched deals within the same investment year, industry, stage, and state that were not funded from the same VC. Our results indicate that greater political alignment between a VC and a startup significantly increases the likelihood of investment. Specifically, an increase in political similarity is associated with approximately 13% higher probability of deal.

We acknowledge potential endogeneity in VC investment matching. For instance, startups might strategically signal certain political values to attract like-minded VC investors, or unobserved factors could drive both political alignment and investment. To address reverse causality and omitted variables, we exploit an exogenous shock to local political attitudes by using the staggered entry of the Sinclair Broadcast Group. Sinclair’s entry to media markets, largely driven by acquisition opportunities than local demand, has been shown to significantly shift the political views of local populations towards the right ([Martin and McCrain, 2019](#); [Levendusky, 2022](#); [Dasgupta et al., 2024](#)) but is uncorrelated with local economic conditions ([Bushman et al., 2024](#)). We then employ a difference-in-difference design to examine how this ideological shift affects investment decisions.

Our results demonstrate that VC-company pairs experience significantly increased political homophily and rise in deal formation likelihood. Specifically, treated VC-company pairs were 29.3% more likely to form an investment partnership compared to untreated pairs. This finding provides causal evidence that shifts in political alignment can directly influence VC investment decisions.

In our subsequent analyses, we examine the impact of political alignment on investment success. Employing both linear probability models for exit outcomes and Cox proportional hazard models for time to exit, we find that political alignment negatively affects successful exits. A one-unit increase in *PHI* is associated with a 5% lower probability of a successful exit (IPO or acquisition) and approximately 19.8% slower time to exit. These results are consistent with the in-group favoritism hypothesis corroborating the idea that while shared partisanship builds confidence and trust, it may also impact decision making that ultimately leads to inferior performance. Our results are robust to alternative measures of political homophily and remain qualitatively unchanged when we further control for the political orientation of both partners and CEOs.

To further investigate causality on investment success, we conduct a shock-based analysis around VC partner turnovers. We identify cases where a VC firm changes partners that alters the partisanship of the VC with the portfolio company CEO. For example, a previously left-leaning VC firm might become more right-leaning with an addition of Republican VC partner. Therefore, the change of VC partners provides a robust identification strategy that allows us to isolate the impact of political alignment on investment performance, mitigating concerns about reverse causality or omitted variable bias. Our difference-in-difference analysis compares the exit outcomes of portfolio companies before and after such shifts, relative to a control group of VC firms without partisan changes. We find that when the turnover of VC partners increases the political alignment with company CEOs, the likelihood of successful exits decreases following the change. This analysis based on idiosyncratic partner turnover events provides additional evidence that higher

VC-company political homophily leads to weaker investment performance.

We, then, study the role of the political environment as a moderating factor. Our results show that partisan alignment between VCs and companies can enhance investment success, especially when both are aligned with external political forces such as the incumbent President's party or local political preferences. In particular, ventures where both the VC firm and the startup align with the sitting President's party or County's political environment experience better exit outcomes, effectively offsetting the negative impact of internal political homophily. In essence, the effect of CEO-VC political alignment is weakened among firms that rely on government resources, such as those engaged in lobbying or securing government contracts. This finding suggests that ventures supported by a favorable external political environment can realize benefits that outweigh the costs of in-group favoritism bias.

Our results remain robust across several additional tests. First, we examine the impact of political homophily by controlling for other types of homophily between partners and CEOs, including shared gender, ethnicity, and educational background. We find that the effects of political homophily on investment performance remain significant, regardless of the impact of other social and demographic similarities. Second, we demonstrate that the adverse effects of political alignment on investment outcomes are more pronounced in periods of high political polarization. Using the Partisan Conflict Index ([Azzimonti, 2018](#)), we show that the adverse effect on performance is more pronounced in highly polarized times. This is consistent with the idea that strong partisan divisions exacerbate the risk of groupthink. This not only highlights the prevalent phenomenon in corporate America ([Fos et al., 2023](#)), but also mitigates the omitted variable bias, as these factors likely interact with political polarization in a similar way to political homophily ([Dasgupta et al., 2024](#)). Third, we extend our analysis by examining the choice of different exit routes. Multinomial logit estimates indicate that political homophily significantly reduces the likelihood of IPO and M&A exits relative to non-exits, with the effect being more pronounced for

IPOs. When we consider liquidations as an exit route, the effect is not statistically significant compared to non-exits. Taken together, the results suggest that high-value exits are more sensitive to in-group bias.

In the final part of our analysis, beyond investment deals and outcomes, we investigate how political alignment influences the investment deal structures. We find that politically aligned VCs are more likely to invest at earlier stages or in first round, and to invest solo rather than in syndicates with other VCs. Moreover, we also find that politically aligned ventures experience slower follow-on financing, with longer intervals before securing subsequent investment rounds. These findings suggest that while trust from political similarity changes investors' risk-sharing tendency and reduces the initial perceived risk, it may also lead to overconfidence, groupthink and a reduced ability to recognize external funding needs and growth opportunities.

This study makes several contributions. First, we add to the literature on the determinants of venture capital investments by introducing the role of political partisanship. With venture capital being typically regarded as an intensive human capital investment and performance being closely tied to the venture capitalist's personal abilities and resource endowment (Gu et al., 2022), prior research has focused on characteristics such as shared ethnicity (Hegde and Tumlinson, 2014; Bengtsson and Hsu, 2015), gender gaps (Ewens and Townsend, 2020), educational ties (Garfinkel et al., 2024), professional background similarities (Gompers et al., 2016), and geographical proximity (Chen et al., 2010; Tian, 2011). We provide the first empirical evidence on how political alignment impacts both VC investment decisions and outcomes, thereby uncovering a novel and distinct dimension of homophily that has not been explored in previous research of venture financing.

We also contribute to the growing research body on political partisanship in economic decision-making. Recent studies show that political partisanship influences a wide range of real economic activities and financial behaviors, including fund manager portfolio choices (Wintoki and Xi, 2020), credit rating behaviors (Kempf and Tsoutsoura, 2021), bank loans

([Dagostino et al., 2023](#)), cross-border capital allocation ([Kempf et al., 2023](#)), mergers and acquisitions ([Duchin et al., 2024](#)), and entrepreneurial activity ([Engelberg et al., 2024](#)). We extend this literature by documenting the effects of political partisanship to the venture capital sector, an area largely unexplored under political influences. Our findings demonstrate that political alignment between VC investors and startup CEOs significantly affects investment decisions and performance outcomes. Thus, our study sheds new light on partisan bias, showing that its influence extends beyond public markets into the formation and success of private high-growth companies.

Last, our paper also contributes to the understanding of partisan connections and the institutional environment in venture outcomes. There is consensus among scholars that political connections with the external political environment can have value-enhancing effects for firms. In venture capital and private equity area, politically connected entrepreneurial firms have been shown to experience benefits such as increased IPO approvals ([Wang and Wu, 2020](#)) and higher employment growth ([Faccio and Hsu, 2017](#)). Our results show that alignment with the incumbent President’s party or local political preferences play a crucial role in reversing the adverse effects of in-group favoritism, particularly for companies that rely on government support. In other words, when there is alignment among VCs, startup CEOs and the broader political environment, the increased access to resources and legitimacy can trade-off the internal risks and costs of homogeneity. This finding offers new evidence on how the external political environment interacts with firm-level dynamics to influence venture performance.

The rest of the paper is structured as follows. Section 2 reviews the literature and develops hypotheses. Section 3 describes the data and the construction of variables. Section 4 presents the results of the empirical analyses, including robustness and additional tests, and Section 5 concludes.

2 Related Literature and Hypothesis Development

2.1 Political Homophily and Investment Decisions

Social identity theory ([Tajfel, 1982](#)) posits that individuals categorize themselves and others into in-groups and out-groups, perceiving in-group members as more trustworthy and cooperative. This often leads to in-group favoritism, where individuals develop a more positive attitude and allocate preferential resources to in-group members. Political affiliation is a prominent dimension of social identity with empirical evidence highlighting the influential role on interpersonal and professional relationships. For example, [Alford et al. \(2011\)](#) identify personal political beliefs among the most powerful determinants of partner selection compared to other social characteristics and demographics. Similarly, [Huber and Malhotra \(2017\)](#), analyzing online dating data, show that individuals with similar political beliefs are perceived as more approachable and are preferred as partners. These studies support that shared politics can increase social affinity and trust.

A growing body in the literature investigates political homophily or diversity in professional contexts (e.g., [Lee et al., 2014](#); [Wintoki and Xi, 2020](#); [Evans et al., 2024](#)). While political homophily, similar to other forms of social ties, can provide information benefits, it can also lead to high levels of conformity within teams. Notably, [Evans et al. \(2024\)](#) argue that political ideology differs from inherent traits such as gender or ethnicity since this is a deliberate choice that reflects a person's perceptions and worldview. In professional settings, political alignment may be an especially strong signal of shared perspectives. For example, research shows that executives' political ideologies can determine corporate policies and strategies (e.g., [Hong and Kostovetsky, 2012](#); [Hutton et al., 2014](#); [Gupta et al., 2017](#)). Moreover, workplace is a context where individuals are more likely to freely engage with political discussions, while debates around other elements of identity such as race or gender may be prevented or discouraged by social norms ([Mutz and Mondak, 2006](#); [Evans et al., 2024](#)). Consequently, both polarization and tolerance are likely to be more promi-

nent for political affiliations than for other types of social affiliations ([Mutz and Mondak, 2006](#); [Iyengar and Westwood, 2015](#); [Sunstein, 2016](#)).

In finance, a number of studies explore the implications of political homophily. [Lee et al. \(2014\)](#) show that political alignment between CEOs and independent directors can signal shared values and beliefs but may also increase agency costs, ultimately reducing corporate value ([Kim et al., 2013](#)). Using a similar political homophily index, [Wintoki and Xi \(2020\)](#) demonstrate that fund managers allocate more capital to portfolio companies exhibiting similar political philosophy. Conversely, political misalignment between employees and their organizations increases turnover rates ([Bermiss and McDonald, 2018](#)), even though CEOs' political preferences tend to influence employees' political choices ([Babenko et al., 2020](#)). In mergers and acquisitions, [Duchin et al. \(2024\)](#) estimate that greater political distance between acquirer and target executives lowers the likelihood of deal completion and post-merger performance. Similarly, [Fos et al. \(2023\)](#) document rising political polarization among corporate executives, driven both by preferences for like-minded collaborators and a generally more homogeneous executive population. Interestingly, [Dasgupta et al. \(2024\)](#) further show that when CEOs and board members are politically aligned, firms experience diminished stock crash risk suggesting that shared ideology improves communications and enables more effective oversight and corrective actions that preserve firm value.

In the context of venture capital, previous studies identify factors that enhance partnerships between VCs and portfolio companies, including shared ethnicity ([Hegde and Tumlinson, 2014](#); [Bengtsson and Hsu, 2015](#)), gender similarity ([Ewens and Townsend, 2020](#)), educational ties ([Garfinkel et al., 2024](#)), professional background similarities ([Gompers et al., 2016](#)), and geographical proximity ([Chen et al., 2010](#); [Tian, 2011](#)). These shared characteristics between VCs and entrepreneurial firms are widely regarded to build trust and align values, thereby increasing the likelihood of collaboration. For example, [Bottazzi et al. \(2016\)](#) show that trust derived from shared cultural values reduces transaction costs

and mitigates information asymmetry in cross-border VC deals.

Extending this literature, our study examines the role of political homophily between VC partners and portfolio companies in driving investment decisions. We argue that a shared political identity between a VC partner and a startup CEO sends as strong signal of common values, which can reduce perceived risk and assist the formation of relationships. Given the high-stakes nature of venture investing and the inherent information asymmetries, such signals can be particularly important. On the one side, CEOs of entrepreneurial companies heavily rely on personal relationships and trust to access funds and establish the appropriate partnerships for efficient operations. On the other side, venture capitalists have to deal with risky choices while remaining accountable to their own investors. Political alignment could serve as a mechanism for establishing trust and compatibility in the investment process. By reducing initial frictions and uncertainty, political homophily between VC partners and entrepreneurs likely increases the probability that a VC will choose to invest in a given company. This study aims to explore the role of political identity ties in high-risk environments by formally testing the following:

***Hypothesis 1:** Political homophily between VC partners and company CEOs increases the likelihood of VC investment.*

2.2 Political Homophily and Investment Success

While political homophily can facilitate the formation of VC-startup partnerships through mutual trust, the economic effects on investment success are unclear and may be bidirectional. While political homophily may improve investment performance through information efficiency, it can also establish in-group favoritism biases leading to negative company outcomes. We consider, therefore, two competing perspectives, i.e., the information efficiency perspective and the in-group bias perspective.

The information efficiency perspective posits that social connections can improve information flow and resource allocation predicting a positive effect on performance. Thus,

better-aligned teams may communicate more effectively and share important information. [Spence \(1973\)](#)'s theory argues that information signaling enables superior parties to convey essential information to less informed parties leading to improved transaction efficiency and optimal resource allocation. In finance, several studies show that social and professional networks facilitate information exchange and lead to superior performance. For example, [Cohen et al. \(2008\)](#) find that mutual fund managers use their alumni networks to connect with corporate board members and obtain valuable information, resulting in enhanced stock returns for connected firms. Similarly, [Cohen et al. \(2010\)](#) and [Engelberg et al. \(2012\)](#) document that social ties, such as school affiliations and prior work relations, exhibit positive correlations with stock performance, and credit rating, while they are negatively associated with default rates for connected firms.

In venture capital, well-connected VCs consistently outperform their less connected peers by accessing critical information through their networks ([Hochberg et al., 2007](#)). [Hegde and Tumlinson \(2014\)](#) emphasize the role of co-ethnicity ties between VCs and entrepreneurs in improving both the investment likelihood and post-investment performance. [Garfinkel et al. \(2024\)](#) provide further evidence that university ties positively influence the chances of investment and post-funding success. Political alignment might operate as an information-enhancing mechanism. We argue that politically aligned VCs and CEOs of entrepreneurial companies could share similar perspectives on policy and market trends, enabling strategic agreement that potentially leads to better company performance.

Despite the positive effects of shared backgrounds and social connections, there is a contrasting view in the literature suggesting that homogeneity may limit exposure to diverse ideas potentially undermining governance quality and adversely affecting performance. [Gompers et al. \(2016\)](#) discuss the “cost of friendship” in VC syndicates by showing worse investment performance for socially close VC partners, corroborating the idea that in-group favoritism, prevalent in homogeneous groups, can diminish diversity, encourage

groupthink, and compromise decision-making processes. Likewise, [Bengtsson and Hsu \(2015\)](#) find that while co-ethnic ties increase VC investment matching, these deals underperform due to excessive confidence and inadequate monitoring. In corporate settings, [Ishii and Xuan \(2014\)](#) show that educational and employment ties between acquirer and target executives result in lower cumulative abnormal returns, further emphasizing the potential drawbacks of homogeneity. [Fracassi and Tate \(2012\)](#) demonstrate how social connections between CEOs and directors can compromise corporate governance, weakening board monitoring and ultimately reducing firm value through value-destructive acquisitions. [Khanna et al. \(2015\)](#) also note that CEO ties from prior appointments can increase the likelihood of fraudulent activities and delay their detection.

Existing studies on team diversity offer valuable insights, yet there is limited academic research exploring political homophily as a form of social alignment and its economic impacts. [Lee et al. \(2014\)](#) argue that greater political homophily between a CEO and independent directors increases managerial entrenchment reducing firm value through higher agency costs and less accountability. [Wintoki and Xi \(2020\)](#) find a negative effect of political alignment between mutual fund and portfolio companies on fund performance, attributing it to excessive favoritism and lack of oversight. To the best of our knowledge, no prior work has studied the impact of political homophily between VC investors and their portfolio company CEOs. Entrepreneurial firms, typically in their early stages of development, often lack robust governance processes assigning a critical role on venture capitalists to provide oversight and strategic guidance ([Hellmann and Puri, 2002](#)). While shared political views can build trust and facilitate cooperation and strategic consensus, excessive alignment in opinions may lead VCs and CEOs to echo each other's biases, thereby overlooking alternative strategies and opportunities or underestimating risks. Based on these competing perspectives, we propose the following hypotheses regarding the effects of political homophily on VC investment performance:

***Hypothesis 2a:** Political homophily between VC partners and company CEOs is associated*

with better investment performance supporting the information efficiency perspective.

Hypothesis 2b: *Political homophily between VC partners and company CEOs is associated with worse investment performance due to in-group favoritism bias.*

2.3 The Role of Political Environment

We argue that external political alignment, particularly with the incumbent President's party and local political preferences, might moderate the relationship between CEO-VC political homophily and venture performance. Specifically, such alignment can either amplify the benefits or provide a cushion against the risks associated with internal political homophily. This view is grounded in institutional theory ([DiMaggio and Powell, 1983](#)), which supports that alignment with prevailing norms increases organizational legitimacy, and resource dependence theory ([Pfeffer and Salancik, 1978](#)), which emphasizes that alignment with external stakeholders facilitates access to critical resources.

In particular, a startup and a VC that are politically aligned with the incumbent government or dominant local political climate may gain credibility in the eyes of stakeholders, regulators, and the public. For example, firms aligning with the President's policies are likely to face fewer regulatory hurdles (e.g., penalties) and receive greater institutional support (e.g., government grants), which would magnify the potential benefits from trust and information efficiencies or counterbalance internal inefficiencies from reduced diversity of thought. In line with the resource dependence view, being politically aligned with the political environment can also facilitate preferential access to government programs, subsidies or contracts, regulatory support and strategic networks thereby improving the firm's performance prospects. For instance, a VC-backed startup that shares the incumbent administration's political beliefs might more easily gain R&D grants.

Empirical evidence corroborates this theoretical grounding. Political alignment with the incumbent government is associated with increased investor optimism and willingness to invest when their preferred political party is in power ([Bonaparte et al., 2017](#)). In

the U.S., Republican investors tend to be less confident when Democrats are in office, and vice versa.³ Such sentiment does not only influence individual investors, but also extends to professionals and organizations. For example, [Kempf and Tsoutsoura \(2021\)](#) show that credit analysts misaligned with the President's party issue more conservative ratings. Extending these findings to international markets, [Kempf et al. \(2023\)](#) demonstrate that banks reduce lending in firms operating in countries politically distant from the U.S. administration. Political alignment also extends to innovative activity and entrepreneurship. [Engelberg et al. \(2023\)](#) show that inventors become more productive when their favored party wins power, and [Engelberg et al. \(2024\)](#) find that Republicans tend to start more firms than Democrats, with more pronounced effects during Republican presidencies.

In addition to national political alignment, research findings show that alignment with the local political environment also affects investment behaviors. According to [Tajfel \(1982\)](#), individuals absorb shared social and cultural identities through interactions with the community, with influences extending to organizational behaviors. For instance, Republican-leaning managers are more likely to work in Republican-leaning firms and reside in predominantly Republican areas ([Hutton et al., 2014](#)). Similarly, [Bhandari and Golden \(2021\)](#) document that Republican CEOs assign higher credit ratings to firms located in conservative regions, aligning their professional decisions with local ideological norms. In the context of venture capital, [Chircop et al. \(2020\)](#) show that VCs located in conservative counties (religious) exhibit lower risk tolerance, reflecting local risk-averse norms. These findings suggest that alignment with local political values can affect decision-making and outcomes. Ventures aligned with local norms may benefit from stronger community legitimacy and support such as favorable local press or customer loyalty. Based on the above-mentioned theoretical and empirical links, we expect that external alignment will positively moderate the relationship between political homophily and venture performance.

³Related literature on the (mis)alignment between economic agents with the party of the incumbent President includes company CEOs ([Arikan et al., 2023](#)), bankers ([Dagostino et al., 2023](#)), and the firm's top five management team ([Rice, 2024](#)), among others.

In other words, when VC partners and portfolio company CEOs are also politically aligned with the external political environment, a positive effect of political homophily on performance will be magnified, or a negative effect will be attenuated. This leads to the following hypothesis:

***Hypothesis 3:** External political alignment with the incumbent government or local political preferences positively moderates the effect of VC and portfolio company CEO political homophily on investment performance.*

3 Data and Variables

3.1 Data Sources and Sample

Our data is compiled from multiple sources. First, we collect deal-level data for U.S. entrepreneurial firms receiving VC funding for the period spanning from 2000 to 2021 from Thomson Reuters Eikon Private Equity (previously known as VentureXpert). This source provides comprehensive information on venture capital investments, including deal-level specific information, VC firm attributes, and portfolio company characteristics. Following prior studies (e.g., [Giot and Schwienbacher, 2007](#)), we consider rounds where the investment amount is disclosed and lies between \$0.01 million and \$100 million. Moreover, we restrict our sample to companies that received their first round of VC funding from 2000 onward to ensure we capture the beginning of the VC relationship.

Second, we gather biographical data on VC firm partners and portfolio company CEOs to determine their identities and tenures. We use a multi-stage matching process employing a combination of automated and manual techniques. Initially, we fuzzy-match VC firms and portfolio companies from Eikon to records in BoardEx, which provides detailed biographical information, including names and tenure dates for executives (partners and

CEOs).⁴ For any companies and individuals not matched in BoardEx, we apply a second fuzzy match with Capital IQ.⁵ While Capital IQ provides partner and executive data, it often lacks information in tenure dates. To address this limitation, we manually supplement missing information from LinkedIn profiles, personal biographies, company websites, and news articles. This process ensures completeness and accuracy for partner and CEO biographical data at deal level.

Finally, we obtain political contribution data from the U.S. Federal Election Commission (FEC). The FEC data includes detailed records of all individual political donations exceeding \$200 with donor names, amounts, transaction dates and types, committee affiliation, employment details (company and position), and location (city, state, and zip code).⁶ We identify donations made by VC partners and portfolio company CEOs to candidate committees, party committees, and political action committees (PACs). For committees with missing party affiliation in the FEC dataset, we supplement this information from the Centre for Responsive Politics (CRP) and other public sources. To ensure the accuracy of matches across VC/CEOs data and FEC records, we employ a multi-stage process following prior studies (e.g., [Cohen et al., 2024](#)). The process involves standardizing names and cross-matching with employer details, occupation titles, and zip codes. The final merged sample consists of 37,717 realized investment deals, involving 2,516 unique VC firms with 16,484 active partners, investing in 9,138 portfolio companies managed by 9,820 unique CEOs from 2000 to 2021.

⁴We consider a variety of individual position titles collectively as partners of VC firms, including Founding Partner, General Partner, Investment Partner, Managing Partner, Managing Director, Vice President, Principal, and so forth ([Abuzov, 2024](#)).

⁵[Ewens and Rhodes-Kropf \(2015\)](#) and [Ewens and Marx \(2018\)](#) use Capital IQ to supplement VC firm's partners and startup's founders' biographies information respectively, while [Cai et al. \(2012\)](#) and [Abuzov \(2024\)](#) employ fuzzy match with BoardEx to retrieve VC partner's information.

⁶The detailed information is available via: <https://www.fec.gov/data/browse-data/?tab=bulk-data>.

3.2 Unit of Observation

In the first stage of our empirical analysis, we test whether political alignment between VC partners and portfolio companies' CEOs increases the likelihood of a successful deal. A key challenge in constructing the dataset is that we observe only completed deals, while the potential opportunities considered by VC firms but not pursued remain unobserved. To address this, we follow approaches in prior VC investment studies ([Hegde and Tumlinson, 2014](#); [Bengtsson and Hsu, 2015](#); [Gompers et al., 2016](#); [Garfinkel et al., 2024](#)), by constructing a set of plausible counterfactual investments for each observed deal. Specifically, for every realized deal in our sample, we identify potential company matches from the same investment year, industry, stage, and state, but backed by different VC firms. For example, in 2020, Flagship Ventures led a Startup/Seed stage venture for Senda Biosciences Inc., a Massachusetts-based startup in the Biotechnology industry. To construct counterfactual pairs for this realized deal, we identify other Massachusetts-based Biotechnology startups that also received Startup/Seed funding in 2020 from a different VC. Applying these procedures across the dataset yields 1,296,331 VC-company pairs, including 34,454 realized deals.

In the second stage of our analysis, we investigate the relationship between political alignment and investment success. For this analysis, our unit of observation is each realized deal, as described in section 3.1.

3.3 Measures of Political Homophily Index

To quantify political homophily, we construct a Political Homophily Index (*PHI*) using the political donations of VC partners and company CEOs. This approach is consistent with prior studies on individual political orientation ([Lee et al., 2014](#); [Wintoki and Xi, 2020](#)). In so doing, we first calculate an individual Republican index (*Ind_Rep*) for each partner and CEO, defined as the difference between the donation amount to Republican Party (R_i) and the Democratic Party (D_i), divided by total donations to both parties:

$$Ind_Rep_i = \frac{R_i - D_i}{R_i + D_i} \quad (1)$$

which ranges from -1 (Democratic) to 1 (Republican). By considering each individual's entire political donations history, we mitigate measurement error and capture stable, long-term political ideologies (Lee et al., 2014; Hutton et al., 2014; Wintoki and Xi, 2020; Rice, 2024). This is consistent with the hypothesis that political donations reflect personal beliefs and individual sentiments (Hong and Kostovetsky, 2012).

Next, we aggregate individual political donations to estimate firm-level Republican indices for VC firms (VC_Rep) and portfolio companies ($Company_Rep$). For each investment year, we compute an equal-weighted average of the individual Republican indices for all active partners or CEOs. The mathematical formula for VC_Rep is:

$$VC_Rep = \frac{1}{N} \times \sum_{i=1}^N Ind_Rep_i \quad (2)$$

where N denotes the total number of active partners in the VC firm and Ind_Rep_i is the Republican index of partner i . Similarly, $Company_Rep$ is calculated as the average Ind_Rep for the active CEOs of the portfolio company. Both VC_Rep and $Company_Rep$ range from -1 (Democratic) to 1 (Republican). Then, the Political Homophily Index (PHI) for each investment pair is defined as:

$$PHI = 1 - \frac{|VC_Rep - Company_Rep|}{2} \quad (3)$$

By construction, PHI varies from 0 (least similar) to 1 (most similar). Since we aggregate all historical donations of each individual, variations in PHI are driven by changes in the composition of VC partners and company CEOs over time.

To ensure robustness, we construct alternative measures of PHI , following prior literature (Lee et al., 2014; Dasgupta et al., 2024). First, PHI_Year is based on individuals' annual political donations, accounting for time-varying factors in political alignment. Ad-

ditionally, *PHI_Strong* focuses on politically strong donors by including only *Ind_Rep* values where the difference between Republican and Democratic donations exceeds \$2,000, minimizing noise from opportunistic donations. Further, *PHI_Cycle* averages donations over election cycles to capture differences in trends to the Republican and Democratic. Finally, *PHI_Polarizer* considers individuals with extreme political affiliations, defined as those making exclusive donations to Republican ($Ind_Rep = 1$) or Democratic Party ($Ind_Rep = -1$).

3.4 Measures of Dependent Variables

Our empirical analysis has two main outcome variables. With our analysis examining whether a VC firm’s investment decisions are influenced by political similarities with portfolio companies’ CEO, the outcome variable, *Deal*, is an indicator variable equal to 1 for a realized deal and 0 for a counterfactual deal. We then evaluate the impact of political alignment on company performance using well-established performance proxies, measured by the type of exit and the time to exit. More specifically, the first investment success outcome variable, *Exits*, is a binary indicator equal to 1 for VC-backed companies that achieved a successful exit via an IPO or M&A and 0 otherwise ([Hochberg et al., 2007](#); [Ewens and Marx, 2018](#); [Gu et al., 2022](#)). For our subsequent analyses, we also classify *Exits* into *Exit_IPO*, *Exit_M&A*, and *Exit_Liquidation*, which indicate whether a company exits through an IPO, acquisition, or liquidation, respectively, and 0 otherwise.

The second investment success measure is time-to-exit (*Time*), defined as the logarithm of the number of days between the VC investment round to the exit date (IPO or M&A), or in other words, the duration from the VC investment to the exit event. For companies that do not experience an exit by the end of study period, we treat the observations as right censored, measuring duration from the investment date to the end of 2022. The duration-based measures allow us to analyze whether political homophily affects not only the likelihood of an exit, but also the time it takes for companies to achieve high returns

to existing owners and VC investors, using survival analysis (Nahata, 2008).

3.5 Control Variables

We include several control variables at the VC firm, company, and deal levels to account for established factors known to influence investment decisions and performance. At the VC-company pair level, we compute the great-circle geographical distance (*Distance*) between VC and portfolio company headquarters using the zip codes available on VentureXpert (Tian, 2011). To capture the firm’s specialization and expertise, we define *Industry_Fit* as the percentage of deals made by the VC firm in the same industry (Bottazzi et al., 2016).

At the VC firm level, we include the age of the VC firm at the time of the investment (*VC_Age*) as proxy of experience, the logarithm of the total number of VC partners (*VC_Partners*) as a measure of VC firm size, and the proportion of VC’s historical ten-year cumulative investment in the industry (*VC_Reputation*) to reflect the firm’s reputational capital (Nahata, 2008). At the deal level, we control for investment size (*Amount*) measured as the total capital invested in a deal, the number of investment rounds the portfolio company had up to that point (*Round_Number*), and the syndication size (*Syndication*), which reflects the total number of VC firms co-investing in a funding round. At the company level, we include the logarithm of company age at the investment date (*Company_Age*) as proxy for company maturity and an indicator variable for the early-stage companies (*Early_Stage*), which equals 1 if the company raised Startup/Seed or Early Stage financing, and 0 otherwise. A detailed description of all variables is provided in Table A1 in the Appendix.

3.6 Summary Statistics

Table 1 presents the descriptive statistics for our variables. Panel A shows that the average probability of a portfolio company receiving VC funding is approximately 2.7% across all hypothetical VC-company pairs. Panel B of Table 1 presents the summary statistics for

realized deals. Among successful exits, 32.1% of investments exit through an IPO (4.0%) or M&A (28.3%), which is comparable with prior findings (Nahata, 2008). The average duration for right-censored observations is approximately 6.8 years, with IPOs averaging 9.1 years and M&As 7.1 years.

[Insert Table 1]

The mean (median) value of *PHI* is 0.719 (0.750). Panel A of Figure 1 provides the annual distribution of *PHI* for our sample deals, revealing an upward trend over the past two decades. Specifically, the average *PHI* has increased from 0.672 in 2000 to 0.765 in 2021, indicating a growing political alignment between VC partners and company CEOs in the U.S. during recent years. For political orientation, we find that both VC partners (*VC_Rep* = -0.236) and company CEOs (*Company_Rep* = -0.200), on average, lean more towards Democratic Party. Moreover, Panel B of Figure 1 shows the temporal trends of the political ideologies of VC partners (*VC_Rep*) and company CEOs (*Company_Rep*) align closely during the 2008 and 2016 presidential elections, with the traditionally Democratic-leaning ideology experiencing a shift following the election of Donald Trump in 2016. Figure 2 plots the matched individual Republican index for partners ($N = 7,142$) and CEOs ($N = 4,070$), showing a stronger Democratic partisanship trend in the venture capital industry, excluding non-donors.

[Insert Figure 1]

[Insert Figure 2]

Table 1 also presents the summary statistics for control variable. On average, companies in our dataset experience 2.8 investment rounds and involve 2.5 VC firms per funding round. Additionally, 50.2% of the deals in our sample are at the early stage, with an average investment amount of \$4.1 million per deal. The average VC age is 8.4 years while the

average company age at investment year is 7.1 years. Overall, the figures are consistent with prior venture investment patterns.

[Insert Table 2]

Table 2 provides pairwise correlations with *PHI* being negatively correlated with both the likelihood and duration to successful exits via IPO or M&A at the 1% significance level. This preliminary evidence lends support to Hypothesis 2b presenting a negative performance effect of political homophily. Importantly, with correlation coefficients below 0.6 between other variables, multicollinearity is unlikely to impact the validity of our regression results.

4 Empirical Results

4.1 Political Homophily and Investment Decisions

To investigate whether political homophily influences the likelihood of matching between a VC and a portfolio company, we estimate a linear probability model:

$$Deal_{i,j} = \alpha + \beta PHI_{i,j,t} + \gamma'X + \varphi_i + \delta_j + \eta_t + \epsilon_p \quad (4)$$

where the dependent variable, *Deal*, is a binary variable equal to 1 if VC *i* invests in company *j*, and 0 otherwise (counterfactual pairs as detailed in section 3.2). The explanatory variable of interest, *PHI*, is the political homophily index between VC *i* and company's *j* CEO at investment year *t*. *X* represents a vector of control variables at the VC firm, company, and counterfactual deal pair level, including *Distance*, *Industry_Fit*, *Company_Age*, *VC_Partners*, and *Early_Stage*. Furthermore, we include VC fixed effects (φ_i), company fixed effects (δ_j), and investment year fixed effects (η_t) to mitigate potential biases arising from unobservable characteristics of VC firms, portfolio companies, and

time trends. Standard errors are clustered at the VC-company pair level to account for serial correlation.⁷

[Insert Table 3]

Table 3 reports the results of this analysis. In Columns (1) and (2), we present the regression estimates without and with control variables, respectively. The coefficient on *PHI* is positive and statistically significant at the 1%, suggesting that greater political similarity between a VC and a company increases the chance of an investment. In economic terms, a one-unit increase in political similarity increases the likelihood of investment by 0.35%. Given that the mean probability of investment is around 2.7%, this result implies that the political similarity translates to an approximate 13% ($0.0035/0.027$) increase in deal likelihood.

In Column (3), we present a stricter specification by incorporating *Investment Year* $\times$ *VC* and *Year* $\times$ *Company* fixed effects, which account for time-varying unobservable factors that may influence investment decisions at both VC and company levels. The *PHI* coefficient remains positive and statistically significant, indicating that the effect is not driven by omitted time-varying characteristics of VCs or companies.

Several interesting results emerge from the control variables in Table 3. Younger companies (*Company_Age*) are more likely to receive VC funding. VCs with more partners (*VC_Partners*) invest in more deals, indicating that the VC firm size plays a role in investment decisions. Geographic distance (*Distance*) has a negative coefficient, consistent with monitoring cost constraints in the venture capital industry with VCs being less likely to invest in startups far away (Tian, 2011; Bernstein et al., 2016). *Industry_Fit* is positive, implying that startups aligning with VC investors' strategic interests and specialization (track record in the industry) are more likely to secure funding ((Bottazzi et al., 2016).

⁷We find qualitatively similar results when we cluster standard errors at VC and company level respectively.

Overall, the results in [Table 3](#) support our H1 hypothesis, showing that political alignment between the VC firm and the company is positively correlated with the likelihood of investment, after accounting for context specific controls.

4.1.1 Robustness Tests

We conduct several robustness tests for the investment decision analysis. [Table 4](#) reports the coefficient estimates using alternative measures of the political homophily index (as discussed in 3.3), namely *PHI_Year*, *PHI_Strong*, *PHI_Cycle*, *PHI_Polarizer*. Across all specifications presented in Columns (1) - (4), the coefficient on *PHI* remains positive and statistically significant, increasing our confidence that the baseline results with *PHI* are robust to measurement concerns.

[Insert Table 4]

We also provide additional model estimates to mitigate concerns for estimation bias in models with binary dependent variable along with high-dimensional fixed effects. Following [Correia et al. \(2020\)](#) and [Cohn et al. \(2022\)](#), we implement a Poisson Pseudo Maximum Likelihood (PPML) method. The results, reported in [Table A2](#), remain consistent with our main findings.

4.1.2 Sinclair Entry as a Shock to Political Homophily

One potential concern is that the selection of VC partners and company CEOs could be endogenous. Specifically, startup CEOs might strategically signal political alignment to match the ideological preferences of potential VC investors, or VCs may select companies that reflect their own political values. To address potential endogeneity in the relationship between political homophily and VC investment decisions, we use the expansion of the Sinclair Broadcast Group in the U.S. market as an exogenous shock to local political attitudes.

Sinclair has rapidly grown since the early 2000s through acquiring local TV stations across the United States.⁸ Sinclair is widely recognized as a conservative-leaning media organization that shifts the political sentiment of local populations to the right (Levendusky, 2022; Dasgupta et al., 2024; Pan et al., 2024). Importantly, Sinclair’s market expansion is primarily driven by supply-side factors, such as acquisition opportunities and economies of scale rather than by local political trends or economic conditions (Martin and McCrain, 2019; Bushman et al., 2024). This makes Sinclair’s entry an ideal quasi-experimental setting to study shifts in political alignment and their effects on VC-startup matching.

We obtain data on Sinclair-owned TV stations from RabbitEars.info, Wikipedia, and annual reports.⁹ The sample consists of 238 TV stations and translators in 81 designated market areas (DMA) between 2000 and 2021.¹⁰ To provide initial evidence on the impact of Sinclair’s Republican-leaning political ideology, we estimate first-stage regressions relating Sinclair’s entry to the Republican index of both VCs and companies by using realized deal sample. The results from these regressions (presented in Table A3 in the Appendix) show that Sinclair’s entry significantly increases the political leanings of VC partners toward the Republican party, with the coefficient of *Sinclair_VC* being positive and significant at the 5% level. The corresponding regression for company CEOs in Column (2) reveals no significant effect. There are two potential explanations for this result. First, while both VC partners and CEOs lean left on average (see Figure 1), CEOs tend to be relatively more right-leaning than VCs, which may attenuate the impact of Sinclair’s exogenous shock on their political views. Second, prior research finds that CEOs exhibit higher levels of overconfidence than VCs, making them less prone to update their political beliefs from external media influences (Malmendier and Tate, 2005; Dasgupta et al.,

⁸Sinclair is the second-largest TV station operators in the U.S., with nearly 200 stations covering approximately 40% of American households across close to 100 designated market areas (DMAs) as of 2024. Sources: <https://pitchbook.com/profiles/company/25768-27#overview> and <https://sbgi.net/investor-relations/financial-reports/>.

⁹Data on Sinclair’s TV stations were obtained from RabbitEars.info via the following link: https://www.rabbitears.info/search.php?request=owner_search&owner=Sinclair&sort=state

¹⁰We use the DMA-zip code mapping files to match each VC firm’s location with its corresponding DMA.

2024). Therefore, we use the Sinclair’s entry into a VC’s DMA as an exogenous shock to explore shifts in political homophily and how they affect VC-startup matching.

We then perform a staggered difference-in-difference analysis, comparing treated and control VC-company pairs before and after Sinclair’s entry. Since the shock tends to shift local political attitudes toward the right, we expect the ideological distance between a VC and a company to decrease (especially for companies that were already more right-leaning than the VC).¹¹ Thus, we expect that the decrease (increase) in political distance (political homophily) should increase the probability of deal between VC and company. Specifically, we estimate:

$$Deal_{i,j} = \alpha + \beta(Treat \times Post) + \gamma'X + \varphi_i + \delta_j + \eta_t + \epsilon_p \quad (5)$$

where *Deal* is a binary variable which is equal to 1 if VC *i* invests in company *j*, and 0 otherwise; *Treat* equals 1 if the VC firm *i* is headquartered in a DMA that experiences the entry of Sinclair at year *t*, and 0 otherwise; *Post* is an indicator variable that equals 1 for post-treatment period (years +1 to +3 relative to the event), and 0 for the pre-treatment period (years –3 to –1).¹² We also include VC (φ_i), company (δ_j), and year (η_t) fixed effects.

[Insert Table 5]

Table 5 report the DiD estimation results without and with control variables in Columns (1) and (2), respectively. The coefficients on *Treat* $\times$ *Post* are positive and statistically significant, suggesting that treated pairs experience an increase of 29.3% (0.0079/0.027) in investment probability post Sinclair’s entry, relative to control pairs. Columns (3) and (4)

¹¹We exclude the treated companies and VC-company pairs in which the Republican index of the untreated company is lower than that of the VC prior to the event year, ensuring that the political homophily is driven by Sinclair’s entry.

¹²For VCs with multiple entries of Sinclair, we include only the first event when Sinclair enters in a particular DMA where the headquarters of VCs are located.

report dynamic lead-and-lag DiD estimations, which examine the timing of changes surrounding Sinclair’s entry. We find no significant difference in deal formation before Sinclair’s entry (pre-treatment periods) but a significant change in the post-treatment period. This pattern indicates that the parallel trends assumption is satisfied supporting that Sinclair’s entry is an exogenous shock to VC investment decisions. Overall, using Sinclair’s entry as a source of exogenous variation in political homophily supports a causal interpretation showing that when a VC and a potential startup’s CEO become more politically aligned after an external shock, they are more likely to form an investment partnership.

4.2 Political Homophily and Investment Success

After investigating the impacts of political alignment on investment matching, we next explore how such alignment affects investment performance. To answer this question, we first estimate the following linear probability model for exit success:

$$Outcome_{j,t} = \alpha + \beta PHI_{i,j,t} + \gamma'X + \varphi_i + \delta_s + \eta_{f,t} + \epsilon_p \quad (6)$$

where $Outcome_{j,t}$ equals to 1 if the portfolio company j has a successful exit via IPO or M&A at the investment date t , and 0 otherwise. The rest of the notation is as previously defined.¹³ Standard errors are clustered at the VC level.

We then estimate a duration model to analyze the time to successful exits. In line with prior studies (Giot and Schwienbacher, 2007; Nahata, 2008; Cumming et al., 2017), we estimate a Cox proportional-hazards model as follows:

$$h(t) = h_0(t) \exp (\beta PHI_{i,j,t} + \gamma'X + \varphi_i + \delta_s + \eta_{f,t}) \quad (7)$$

where $h(t)$ is the hazard rate of company j exiting via IPO or M&A. t denotes the time

¹³We don’t include company fixed effects in the performance estimation model because there is no variation in outcomes within the portfolio company.

from the investment date to IPO or M&A exit date.¹⁴ The baseline hazard function $h_0(t)$ estimates the risk of the event occurring when none of the covariates are present. β is the estimated coefficient capturing the relationship between the explanatory variable, PHI , and the hazard rate. A positive coefficient suggests a shorter time to exit, while a negative coefficient indicates a delayed exit. We include the same set of controls and fixed effects as in Equation (6) and cluster standard errors at the VC level.

[Insert Table 6]

Table 6 displays the results for exit success probability (Columns (1) to (2)) and hazard of exit (Columns (3) to (4)). In Columns (1) and (3), without controls, PHI is negative and statistically significant at the 1% level for both *Exits* and *Time*. In terms of economic magnitude, a one-unit increase in PHI is associated with 5% lower probability of successful exit, while the coefficient of Cox hazard model indicates 19.8% $((1 - e^{-0.221}) \times 100\%)$ lower speed to a positive exit. The results remain robust and are statistically significant at the 5% level when we add the full set of control variables in Columns (2) and (4). In summary, both the linear probability and survival analyses indicate that higher CEO-VC political alignment reduces the likelihood of successful exits and lengthens the time to such exits, supporting H2b.

To further illustrate the effect of political alignment on venture success, we plot a kernel density graph of the fitted values, in Figure 3, for successful exits from a model with all the controls excluding PHI . We then examine their distribution by high versus low PHI groups splitting the deals above ($PHI_High=1$) and below ($PHI_High=0$) the sample median. Deals with PHI_High equal to 1 are generally shifted leftwards compared to those with PHI_High equal to 0, suggesting underperformance relative to what fundamentals would predict. Figure 4 plots the predicted survival curves (Kaplan-Meier survival curves) from the Cox model. The curve for high- PHI deals (red solid line) is

¹⁴For companies remain active within our sample, the *Time* is calculated to the end of 2022.

consistently above that for low-*PHI* investments (blue dashed line), indicating that increased political similarity leads to slower exits via IPO or M&A.

[Insert Figure 3]

[Insert Figure 4]

Overall, the results presented in [Table 6](#) and accompanying figures provide support for our hypothesis that political homophily is negatively associated with investment success, aligning with the idea of in-group favoritism bias in politically homogeneous teams that can lead to suboptimal decisions or delayed corrective actions.

4.2.1 Robustness Tests

We conduct several robustness checks. To mitigate that our findings are sensitive to the construction of *PHI*, we use the alternative *PHI* measures, as discussed previously, and re-estimate the exit success and time-to-exit models. [Table 7](#) reports these results with exit success in Panel A and time-to-exit in Panel B. Across all four alternative measures and both panels, *PHI* consistently remains negative and statistically significant with only *PHI_Year* being marginally significant in the survival analysis, likely due to higher noise with single-year donations. Overall, these estimates increase the robustness of our baseline findings and alleviate concerns for potential measurement errors.

[Insert Table 7]

Furthermore, we investigate whether the *PHI* might be proxying for the individual political ideologies of VC partners or CEOs. For instance, strongly conservative partisan CEOs may perform differently regardless of the investor relationship. Recent studies have increasingly examined the relationship between managerial political ideologies and corporate decision-making ([Di Giuli and Kostovetsky, 2014](#); [Hutton et al., 2014](#); [Francis et al.,](#)

2016; Elnahas et al., 2023). Therefore, to isolate the effect of the alignment, we extend the analysis by including the average Republican index of VC partners (*VC_Rep*) and the Republican index of the company’s CEO (*Company_Rep*) as additional control variables.

Panel C of Table 7 shows that *PHI* remains negative and statistically significant at the 1% level even after including *VC_Rep* and *Company_Rep*, indicating that the match or mismatch between VC and CEO ideology affects performance beyond individual ideologies. Interestingly, the coefficient of *Company_Rep* is negatively associated with company performance, suggesting that political ideology influences entrepreneurial success in our sample. One plausible explanation, supported by the behavioral consistency theory, is that more conservative CEOs may be more risk-averse and slower to act or change (Jost, 2006; Chin et al., 2013; Hutton et al., 2014), which could decelerate rapid growth often needed in startups. Conversely, Democratic CEOs exhibit higher openness to change and risk tolerance, which can be advantageous for managing uncertainties and driving success in entrepreneurship (Korunka et al., 2003; Hall and Woodward, 2010).

4.2.2 Investment Success around VC Partner Changes

To better approximate the causal effect of political homophily on the investment success, we perform an event-study analysis for investment outcome effects around changes in VC partners’ composition. In so doing, we measure whether changes in a VC’s partisan affiliation due to partner turnover led to a corresponding change in the performance of VC deals. The change of VC partners offers a robust identification strategy, as partner turnover is more likely to be driven by idiosyncratic factors and individual career considerations instead of endogenous determinants (Garfinkel et al., 2024). This approach allows us to isolate the effect of political alignment on investment performance, reducing concerns related to reverse causality or omitted variable bias.

We classify treated VC firms as those experiencing significant shifts in the VC partisan affiliation due to partner changes. Following Wintoki and Xi (2020), we define events

where VC_Rep increases (decreases) under three scenarios: (i) the addition of Republican (Democratic) partners, (ii) the departure of Democratic (Republican) partners, or (iii) the replacement of Democratic (Republican) partners with Republican (Democratic) partners. Consequently, assuming company's political affiliation fixed, an increase (decrease) in VC_Rep leads to a corresponding decrease (increase) in PHI .¹⁵ We then construct a treatment indicator ($Treat$) at the deal level. $Treat$ equals 1 if the PHI increases with a partner change event that decreases VC_Rep , -1 if PHI decreases as VC_Rep increases, and 0 if the VC firm does not experience any of the defined scenarios.

For our DiD analysis, we require observations spanning three years before and after the partner change event in the VC firm.¹⁶ In so doing, we identify 571 treated VC firms, and 1,560 VC firms as controls. Among the 571 treated VC firms, 278 experienced a positive treatment ($Treat = 1$), while 293 experienced a negative treatment ($Treat = -1$). The year of the partner turnover event is defined as the event year (year 0). $Post$ is a binary variable equal to 1 if year t falls after the turnover event, and 0 otherwise. We then estimate a DiD regression model analogous to Equation (5), with a binary variable for exits via IPO or M&A as the outcome variable and the same set of controls. We also include VC (φ_i) and year (η_t) fixed effects to control for unobserved heterogeneity.

[Insert Table 8]

Table 8 reports the regression results. Columns (1) and (2) show that the coefficient on $Treat \times Post$ is negative and statistically significant, indicating that increased political homophily between a VC firm and a portfolio company following a change in VC partners reduces the likelihood of successful exits via IPO or M&A. Columns (3) and (4) report the results from the dynamic DiD estimation, where $Prior$ is a binary variable equal to 1

¹⁵We restrict our sample to companies that have not experienced CEO turnover, ensuring that $Company_Rep$ remains constant across the sample period. Therefore, the PHI is influenced solely by changes in VC_Rep .

¹⁶For VCs with multiple partner turnover events, we consider only the first event in the analysis.

for event years -3 and -2, and *Post* is an indicator variable equal to 1 for event years +1 to +3. We observe no significant differences in investment success between treated and control VC deal pairs prior to the partner change, supporting the parallel trend assumption. These results suggest that a change in CEO-VC *PHI* from VC personnel turnover leads to a change in exit performance in the expected direction.

4.3 Political Environment and Partisan Bias

4.3.1 Local Political Environment and Partisan Bias

This section examines whether the broader political environment moderates the relationship between political homophily and venture capital investment success. We focus on two key dimensions of external political alignment including the local partisan preferences and the incumbent President’s party affiliation. Specifically, we investigate how these contextual factors may amplify or mitigate the partisan bias, thereby providing additional insights into the underlying mechanisms driving the observed association between political alignment and investment outcomes.

In line with H3, we would expect the partisan homophily bias to be more pronounced when the political environment or the President matches their shared ideology. For a Republican-leaning CEO-VC pair located in a predominantly Republican County or under a Republican government, the internal alignment could be strengthened by benefits from external alignment mitigating the negative effects of political homophily effects on exit performance. As discussed earlier, the external political environment can impact investor sentiment by generating optimistic expectations regarding a firm’s exposure to favorable local or federal government policies.

To empirically test this hypothesis, we follow [Arikan et al. \(2023\)](#) to construct a measure of partisan alignment between VC firms/companies and the external political environment (County or President). For alignment with local political environment, we use county-level vote shares obtained from MIT Election Data and Science Lab to compute

County_Rep as:

$$County_Rep = \frac{Rep_Vote - Dem_Vote}{Rep_Vote + Dem_Vote} \quad (8)$$

where *Rep_Vote* and *Dem_Vote* represent the latest presidential election voting shares for the Republican and Democratic parties, respectively at the county level where the company is headquartered. By construction, this index ranges from -1 (Democratic) to 1 (Republican). Then, we measure the partisan alignment between VC firms and the company's county, *VC_County_Align*, by multiplying *VC_Rep* by *County_Rep*. *VC_County_Align* ranges from -1 to +1, with more positive values indicating stronger alignment with the local political preference and more negative values indicating weaker alignment. We construct *Company_County_Align* following the same methodology (multiplying *County_Rep* by *Company_Rep*).

For alignment with the President, *President_Rep* is assigned a value of 1 if the U.S. President is Republican, and -1 if the President is Democratic. Next, we compute *VC_Pres_Align* (*Company_Pres_Align*) by multiplying *VC_Rep* (*Company_Rep*) with *Pres_Rep*. By construction, *VC_Pres_Align* and *Company_Pres_Align* range from -1 to +1, with a more positive (negative) value indicating higher (lower) alignment with the President's party. To examine the joint effect of political alignment across multiple levels (VC-Company, VC-Pres, Company-Pres or VC-Company, VC-County, Company-County), we estimate the models in Equations (6) and (7) including a triple interaction term between *PHI*, *VC_County_Align* (*VC_Pres_Align*), and *Company_County_Align* (*Company_Pres_Align*).

[Insert Table 9]

The results are presented in [Table 9](#), with Panel A presenting estimates based on local political alignment and Panel B focusing on incumbent President alignment for *Exit* (OLS) and *Time* (Cox hazard). The coefficient on the interaction term capturing full political alignment across VC partners, company CEOs, and the external political environment is positive and statistically significant at the 5% level, lending support to H3. More

importantly, even after controlling for local or national political alignment between VCs and portfolio companies, the main effect of partisan similarity (*PHI*) remains negative and statistically significant. This suggests that CEO-VC ideological homophily exerts an independent influence on exit outcomes, distinct from the effects of broader political conditions.

Overall, the results suggest that joint alignment between the VC, the CEO and the external political environment can effectively mitigate the negative impact associated with partisan similarity. One possible explanation is that politically aligned CEO-VC pairs are better able to navigate the institutional environment, particularly when their alignment extends to the dominant local political preferences and the incumbent President's party. This alignment may improve access to political resources, including government support through tax incentives, government subsidies, or regulatory benefits, leading to more favorable investment outcomes. These findings corroborate the idea that a three-way political alignment introduces a potentially beneficial dynamic suggesting that political homophily, while risky in isolation, may still yield strategic advantages when embedded within a favorable political context.

4.3.2 Politically Dependent Companies: Lobbying and Government Contracts

Building on previous results supporting that alignment with the external political environment mitigates the negative effects of CEO-VC political homophily, we examine whether this pattern is prominent for companies that rely on government resources, specifically those engaged in lobbying or receiving government contracts. If external political alignment enhances institutional legitimacy or improves access to resources, we expect the adverse impact of *PHI* on investment performance to be less pronounced for these politically dependent companies.

Lobbying expenditures allow corporations a channel to influence government policies through financial contributions, which serve as powerful tools for applying pressure and

shaping regulatory outcomes and favorable treatment (Burris, 2001; Yu and Yu, 2011; Correia, 2014). To capture lobbying activity, we construct *Lobby*, a binary variable equal to 1 if the company engages in lobbying during the investment year, and 0 otherwise, using data from the Centre for Responsive Politics (CRP). To measure dependence on government funding more directly, we use government procurement data from USAspending.gov, following prior studies (e.g., Brogaard et al., 2021; Samuels, 2021). In so doing, we create a firm-level variable, *Contracts*, which equals 1 if the company secures a government procurement contract in the investment year, and 0 otherwise.

[Insert Table 10]

Table 10 presents the results of the analysis splitting the sample based on lobbying or contracts. For companies that engage in lobbying activities or receive government contracts in Columns (1) and (3), the coefficient on *PHI* is not statistically significant. In contrast, in Columns (2) and (4), we observe that the coefficient estimates are negative and statistically significant at the 5% level for firms that neither engage in lobbying nor receive government contracts. These findings support that the negative association of CEO-VC political alignment with startup outcomes is mitigated through external channels. It appears that the broader political environment serves as a critical facilitator of resource allocation and institutional advantages, reversing the effects of in-group favoritism bias. In other words, this analysis shows that the effects of shared political identity in startups operate on multiple layers: internally through political bias between VCs and CEOs, and externally, through alignment with the political environment. More importantly, external political alignment acts as a mitigating mechanism that helps counterbalance the potential downsides of internal political homophily.

4.4 Additional Analysis

We perform several analyses to ensure the robustness of our findings and rule out alternative explanations.

4.4.1 Other Types of Homophily

It is possible that alternative social ties could be driving our results. For example, VCs may share multiple characteristics with CEOs (e.g., same gender or ethnicity) that actually affect investment decisions and outcomes rather than political alignment per se. Prior studies document several determinants of VC partnerships, including ethnic similarities (Hegde and Tumlinson, 2014; Bengtsson and Hsu, 2015), shared career background (Gompers et al., 2016), and educational ties (Garfinkel et al., 2024).

To ensure the robustness of our findings on political homophily is not confounded by these alternative shared identity elements, we extend our analysis to explicitly consider these alternative types of homophily. Following prior research (Hegde and Tumlinson, 2014; Bengtsson and Hsu, 2015; Wintoki and Xi, 2020; Garfinkel et al., 2024), we construct: (i) gender similarity (*Gender_Similarity*), a binary variable that equals 1 if the gender distance between a VC and a portfolio company is above the sample median, where gender distance is calculated as the absolute difference between the proportion of female partners at the VC firm and the proportion of female CEO(s) at the portfolio company¹⁷, (ii) ethnicity similarity (*Ethnicity_Similarity*), a binary variable equal to 1 if the CEO’s ethnicity matches at least one of the VC firm partners’ ethnicity¹⁸, and (iii) educational similarity (*Education_Similarity*), a binary variable that equals 1 if any of the CEO(s) and VC part-

¹⁷Both BoardEx and Capital IQ offer data on individual’s gender. In cases where gender is missing from these sources, we supplement this information by checking LinkedIn profiles and other internet-based resources, identifying gender based on the individual’s first name, as suggested by Faccio et al. (2016).

¹⁸We rely on two primary sources to classify ethnicities, focusing on the eight minority ethnicities identified by Bengtsson and Hsu (2015). First, we use the API from the Ethnea database, developed by Torvik and Agarwal (2016), to categorize the ethnicities of VC partners and CEOs into Chinese, Hispanic, Indian, Japanese, Korean, Slav, and Vietnamese. Second, we extract a list of the most common Jewish surnames from Wikipedia to identify Jewish ethnicity within our sample.

ners attended the same university.¹⁹ We then re-estimate models in Equation (6) and (7) by including these three additional types of homophily alongside *PHI*.

[Insert Table 11]

The results are presented in [Table 11](#). Panel A reports coefficient estimates for the likelihood of successful exits, while Panel B examines the time to exit. Each specification controls for *PHI* alongside each one of the characteristics (gender, ethnicity, and educational similarities) in Columns (1)-(3), and all similarities jointly in Column (4). Across all analyses, the coefficient on *PHI* remains significantly negative, with both magnitude and significance level close to our baseline findings. In contrast, we find no strong evidence that other forms of social identity significantly affect venture outcomes. Overall, these results demonstrate the distinct role of political alignment between VC and company in venture partnerships and success, independent of other social and demographic ties. Importantly, our findings lend support to this research stream which argues that political beliefs, as a source of identity and social affiliation, has meaningful implications for strategic priorities in corporate contexts.

4.4.2 Does Political Polarization Matter?

Political polarization has become a prevalent phenomenon in corporate America, with executive teams in U.S. firms exhibiting an increasing trend towards partisanship ([Fos et al., 2023](#)). Partisan biases tend to be more pronounced during periods of heightened polarization, as individuals become less inclined to engage with those holding opposing political views. Prior research suggests that political polarization amplifies partisan biases in decision making. For instance, [Kempf and Tsoutsoura \(2021\)](#) find that the negative effects

¹⁹The education history of VC partners and CEOs is available from both BoardEx and Capital IQ. Since the university names provided by these databases are not consistent, we standardize and clean the data to create a unified university name list.

of a political mismatch between credit rating analysts and the President’s party on credit ratings are more intense during periods of increased political polarization, amplifying the baseline effect by over 80%. Based on this evidence, we expect that the effects of political alignment between VC firms and portfolio companies will be more pronounced during high polarized periods.

To empirically test this idea, we employ the Partisan Conflict Index (*PCI*) proposed by Azzimonti (2018). As in Duchin et al. (2024), we standardize the monthly *PCI* by taking its annual average and we construct *PCI_High*, a binary variable equal to 1 if the *PCI* is above the sample median, and 0 otherwise.²⁰ We then split the sample into high and low polarization periods and re-estimate the performance regressions to examine if the homophily effect varies with partisan conflict.

Table 12 presents the results from these analyses. Columns (1) and (2) examine the likelihood of successful exits, estimating the effect of political alignment separately for investments for low-polarization (*PCI_High* = 0) and high-polarization periods (*PCI_High* = 1). In low polarized periods, the coefficient on political alignment is negative but statistically insignificant. However, in high polarized periods, the coefficient is significantly negative at the 5% level with its magnitude being more than twice than that of the low-polarized period. Columns (3) and (4) show similar patterns for time to exit.

[Insert Table 12]

Taken together, these results suggest that the adverse effects of political alignment on investment outcomes are significantly more pronounced in more polarized political environments. This finding underscores the role of broader political dynamics in shaping venture capital investment performance, highlighting how partisan divisions can exacerbate the risks associated with political homophily within investment relationships.

²⁰We obtain the partisan conflict index (*PCI*) from the Federal Reserve Bank of Philadelphia website, which uses the frequency of newspaper articles that discuss political conflict between different parties since 1980s.

4.4.3 Different Types of Exits

As a further robustness check, we examine whether the effect of political alignment differs across exit types using a multinomial logistic regression approach. The dependent variable takes three discrete values related to IPOs or M&A, liquidations, and those companies that are still active. The results from Column (1) in [Table 13](#) reveal a negative association between political homophily and the likelihood of positive exits (IPO/M&A), significant at the 1% level. Additionally, we observe a positive, though statistically insignificant, association with liquidation outcomes. Overall, these findings are consistent with our baseline analysis, supporting the view that political alignment is linked to weaker exit performance.

[Insert Table 13]

We, then, disaggregate exit outcomes by distinguishing between IPOs and M&As, acknowledging that IPOs are commonly perceived as the most successful exit for both VC investors and entrepreneurs, while M&As represent a broader exit pathway with varying valuations ([Bayar and Chemmanur, 2011](#); [Bottazzi et al., 2016](#); [Gu et al., 2022](#)). In this specification, the dependent variable takes three discrete values related to IPOs, M&As, and companies that remain active. Our findings in Column (2) of [Table 13](#) indicate a negative and statistically significant association between political homophily and both IPOs and M&As, with the effect being more pronounced for IPO, further highlighting the economic implications of our study. Overall, these findings suggest that political similarity might reduce the startup's ability to reach high-value exit events.

4.5 Political Homophily and Investment Structure

Beyond partnership formation and exit outcomes, we examine how political alignment influences the structure of investment deals. Specifically, we investigate whether shared

political identity between CEOs and VCs affects the stage of entry, syndication behavior and the follow-on financing. Early-stage and first-round investments involve higher uncertainty and information asymmetry during the VC screening process, making “trust” an important factor in early-stage deal formation (Bottazzi et al., 2016). Political alignment, as a proxy for trust, may increase the propensity for VCs to invest in earlier stage companies. Second, we analyze the impact of political alignment on the likelihood of syndication. The rationale is that higher levels of trust, proxied by political alignment, reduces the need to share risk with co-investors, which lowers the propensity for syndication.

Based on these arguments, we construct four key dependent variables: (i) *Early_Stage*, a binary variable equal to 1 if the VC invested at the startup or seed stage, and 0 otherwise, (ii) *Round_1st*, equal to 1 if the VC invested in the company’s first funding round, and 0 otherwise, (iii) *Syndication*, a binary variable equal to 1 if the investment round involved multiple VC firms, and 0 otherwise, and (iv) *Follow_Round*, which measures the time from a round to the following funding round. For companies with no follow-on financing, the duration is right-censored at the end of 2022.

[Insert Table 14]

Table 14 reports the regression results. Columns (1) and (2) indicate positive and statistically significant coefficients on *PHI*, for *Early_Stage* and *Round_1st*, at the 5% and 1% levels, respectively. Conversely, Column (3) shows a negative and statistically significant coefficient on *PHI* for *Syndication* at 5% level, consistent with the view that political alignment reduces the incentive to share deals. Finally, Column (4), which reports results from a Cox hazard model, shows that *PHI* is negatively and significantly related with *Follow_Round*, which indicates that politically aligned ventures experience slower follow-on financing. Taken together, these findings suggest that political alignment enhances trust and reduces perceived risk in the early stages of investment. However, it may

also introduce overconfidence, groupthink, leading to a slower adaptation to new financing needs and a diminished ability to recognize and respond to growth opportunities.

5 Conclusion

In this paper, we investigate how the political partisanship between VC partners and company CEOs affects investment decisions, subsequent performance, and deal structures. Using a sample of 37,717 U.S. based VC deals from 2000 to 2021, we find that political homophily increases the likelihood of VC partnerships by establishing mutual trust and reducing information asymmetry. However, this alignment reduces the likelihood and delays the time to successful exits, such as IPOs or M&As, consistent with the in-group favoritism channel.

Our analysis also reveals the significance of the broader political environment as a moderating factor. External political alignment counterbalances the negative effects of in-group bias when both VC firms and companies align with the incumbent President or local political preferences. This is further supported through a weakened political homophily effect for companies that engage in lobbying or receiving government contracts. Moreover, we find that the impact of political alignment on investment outcomes is more pronounced in periods of heightened political polarization. In terms of investment structure, political homophily increases the likelihood of early-stage and first-round investments, decreases syndication among VCs, and is associated with slower follow-on financing. These results remain robust across alternative measures and model specifications. Importantly, after controlling for other social ties, we show that political beliefs form a distinct and strong dimension of identity.

This study contributes to the growing literature that focuses on the determinants of venture capital financing by shedding new light on the implications of political homophily bias for partnership decisions and outcomes. Given the critical role of entrepreneurial

ventures to drive innovation and economic growth, understanding how partisan biases influence capital allocation is increasingly important. In times where corporate America becomes more ideologically polarized with high political homogeneity among executives, our findings have critical implications for entrepreneurs, venture capital providers, and policymakers, providing insights at the intersection of social identity, trust and venture performance in high-growth and high-risk markets.

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Figures

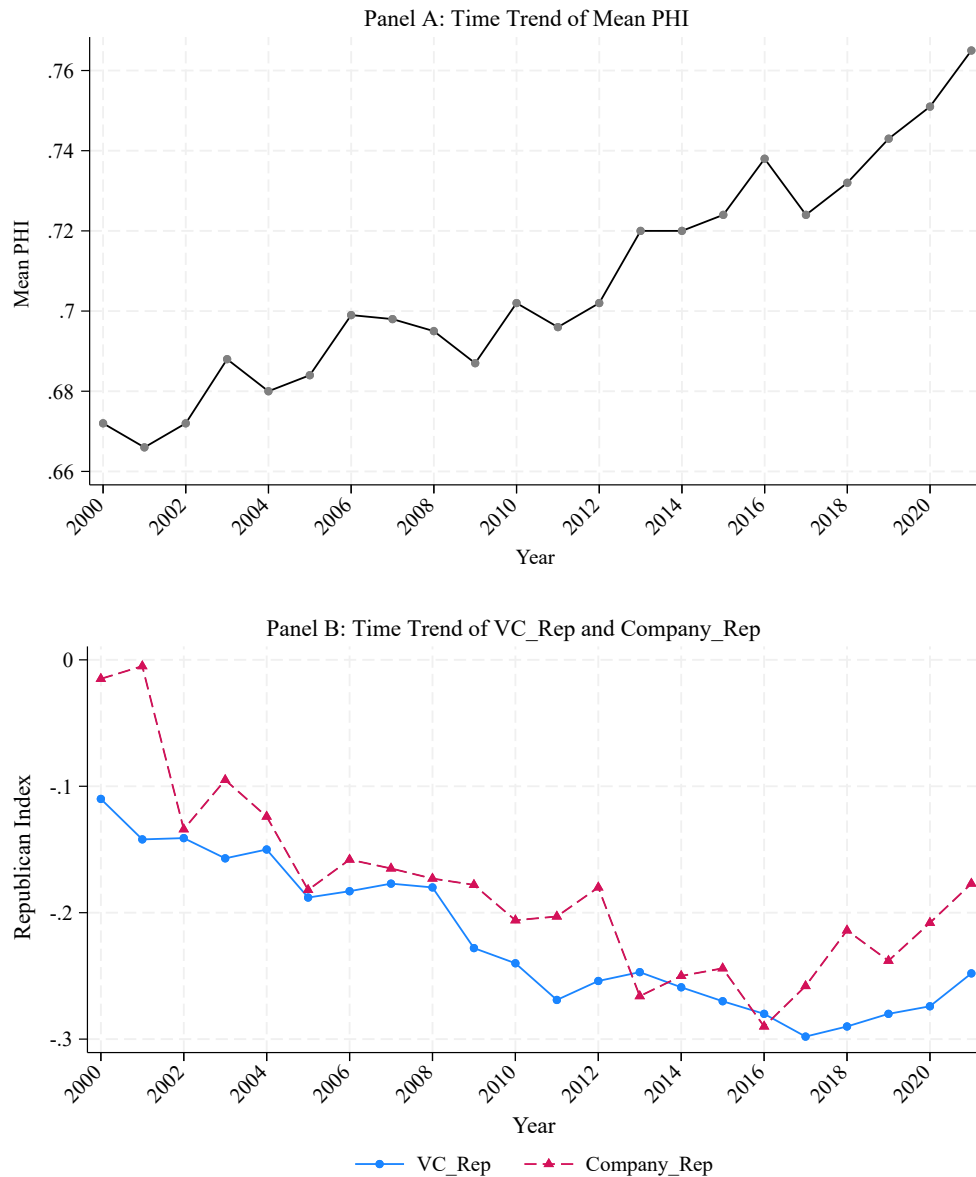


Figure 1: Time Trends of Political Homophily and Republican Affiliation Indices.

This figure presents the time-series evolution of political alignment measures between VC firms and their portfolio companies over the sample period. Panel A illustrates the average Political Homophily Index (PHI) between VC firms and portfolio companies, while Panel B depicts the average Republican affiliation index of all VC firm partners (*VC_Rep*) and all portfolio company CEOs (*Company_Rep*). The sample comprises 2,516 VC firms and 9,138 portfolio companies from 2000 to 2021.

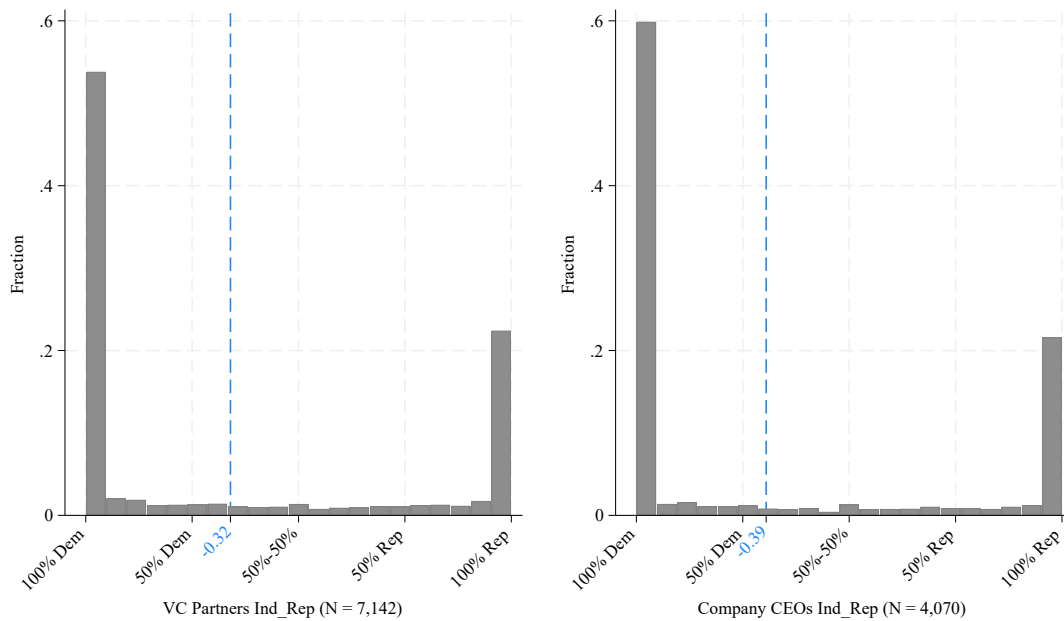


Figure 2: Distribution of Matched Individual Level Republican Index.

This figure plots the distributions of the individual level Republican index based on those who have ever made political donations for VCs and companies. The blue dashed line represents the mean of the distribution. The individual Republican index is calculated as the difference between the total donation amounts to the Republican Party and the Democratic Party, divided by the sum of donations to both parties.

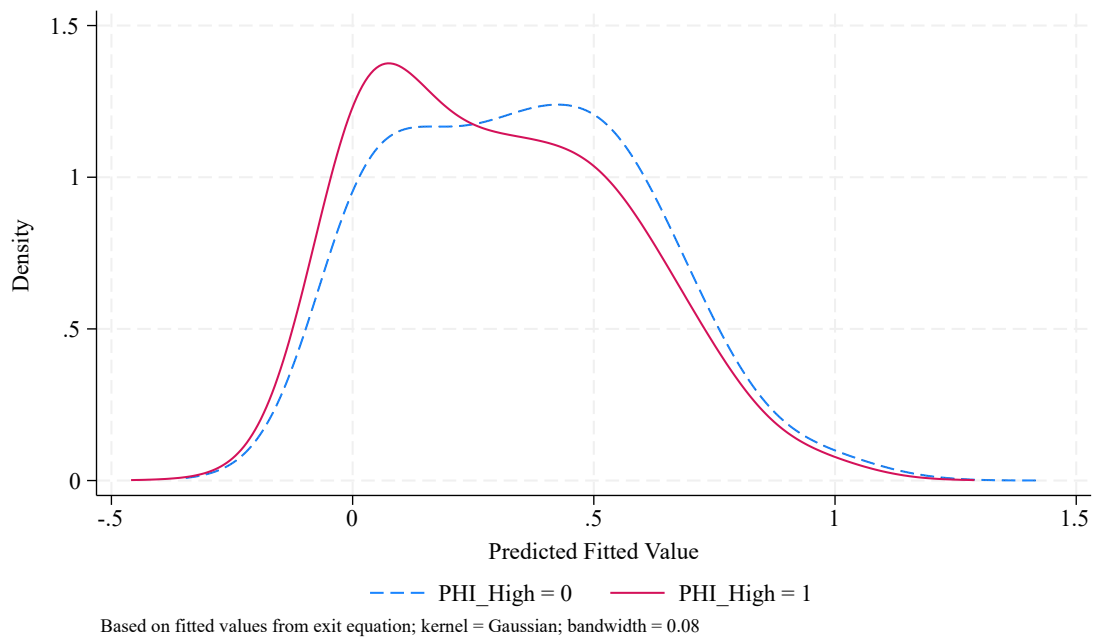


Figure 3: Kernel Density Graph of Predicted Fitted Values by PHI.

This figure plots the predicted fitted value by political homophily index. Predicted fitted value is calculated using a model that includes full set of controls and fixed effects but excluding the political homophily index. *PHI_High* is defined as one if the political homophily index is above sample median, and zero otherwise. The red (blue) solid (dash) line indicates high (low) political homophily index.

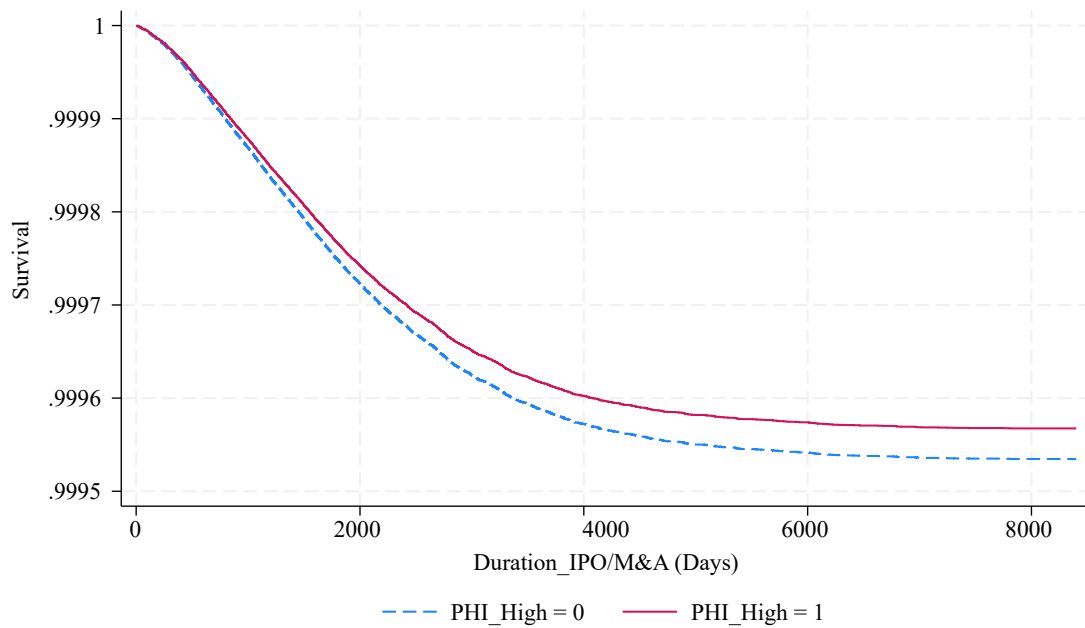


Figure 4: Survival Estimates of VC-Backed Companies by PHI.

This figure plots the survival estimates based on cox proportional hazards regression for VC-backed companies' rate of successful exits via IPO or M&A during the sample period of 2000–2021. The red solid line is the probability of successful exits up until a given time for investments with high political homophily, while the blue dashed line is the probability of successful exits up until a given time for investments with low political homophily.

Table 1: Descriptive Statistics

This Table provides summary statistics of our key variables. Panel A includes counterfactual deals, and Panel B contains realized deals. All variable definitions are given in [Table A1](#).

<i>Panel A: Counterfactual Deals</i>						
Variable	N	Mean	SD	25th Perc	Median	75th Perc
Deal	1,296,331	0.027	0.161	0.000	0.000	0.000
PHI	1,296,331	0.735	0.205	0.601	0.753	0.893
PHI_Year	1,296,331	0.895	0.160	0.875	0.971	1.000
PHI_Strong	1,296,331	0.798	0.185	0.682	0.838	0.949
PHI_Cycle	1,296,331	0.742	0.201	0.612	0.760	0.900
PHI_Polarizer	1,296,331	0.760	0.201	0.625	0.792	0.923
Distance	1,296,331	5.272	2.551	3.301	5.719	8.166
Industry_Fit	1,296,331	0.612	0.271	0.399	0.663	0.821
Company_Age	1,296,331	6.992	0.756	6.578	7.079	7.501
VC_Partners	1,296,331	1.615	1.067	0.693	1.609	2.303
Early_Stage	1,296,331	0.658	0.474	0.000	1.000	1.000
<i>Panel B: Realized Deals</i>						
Variable	N	Mean	SD	25th Perc	Median	75th Perc
Exits	37,717	0.321	0.467	0.000	0.000	1.000
Exit_IPO	37,717	0.040	0.197	0.000	0.000	0.000
Exit_Merger	37,717	0.283	0.450	0.000	0.000	1.000
Time	37,717	7.494	0.869	6.890	7.557	8.156
PHI	37,717	0.719	0.217	0.575	0.750	0.887
PHI_Year	37,717	0.894	0.161	0.875	0.965	1.000
PHI_Strong	37,717	0.787	0.192	0.667	0.833	0.945
PHI_Cycle	37,717	0.725	0.214	0.588	0.750	0.896
PHI_Polarizer	37,717	0.747	0.212	0.600	0.778	0.917
VC_Rep	37,717	-0.236	0.432	-0.500	-0.252	0.000
Company_Rep	37,717	-0.200	0.599	-1.000	0.000	0.000
Distance	37,717	5.292	2.598	3.085	5.815	7.878
Industry_Fit	37,717	0.306	0.229	0.124	0.282	0.444
VC_Reputation	37,717	0.132	0.252	0.006	0.036	0.160
VC_Partners	37,717	1.691	1.090	0.693	1.609	2.398
Amount	37,717	4.142	7.030	0.877	2.186	5.000
Syndication	37,717	2.460	1.423	1.000	2.000	3.000
VC_Age	37,717	8.375	0.963	7.786	8.472	9.108
Company_Age	37,717	7.081	0.963	6.594	7.188	7.683
Early_Stage	37,717	0.502	0.500	0.000	1.000	1.000
Round_Number	37,717	2.835	2.306	1.000	2.000	4.000

Table 2: Correlation Matrix

This Table reports Pearson correlation coefficients. ***, ** and * denote significance at the 1%, 5%, and 10% levels, respectively. All variable definitions are given in [Table A1](#).

	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.	13.	14.	15.
1. Exits	1.000														
2. Time	-0.253***	1.000													
3. PHI	-0.070***	-0.049***	1.000												
4. VC_Rep	0.032***	0.042***	-0.052***	1.000											
5. Company_Rep	-0.005	0.008	-0.049***	0.083***	1.000										
6. Distance	0.001	-0.038***	-0.036***	0.023***	0.043***	1.000									
7. Industry_Fit	-0.039***	-0.097***	0.002	-0.019***	-0.009*	-0.023***	1.000								
8. VC_Reputation	0.089***	-0.001	-0.008	-0.075***	0.032***	0.049***	-0.163***	1.000							
9. VC_Partners	0.003	-0.072***	0.091***	-0.114***	-0.028***	0.018***	-0.082***	0.539***	1.000						
10. Amount	-0.017***	-0.083***	-0.008	0.018***	0.029***	0.064***	-0.021***	0.186***	0.173***	1.000					
11. Syndication	0.009*	-0.132***	-0.015***	-0.046***	-0.046***	0.034***	0.040***	-0.042***	-0.004	-0.095***	1.000				
12. VC_Age	0.076***	-0.028***	0.000	-0.024***	-0.016***	0.013**	-0.143***	0.422***	0.444***	0.123***	0.005	1.000			
13. Company_Age	0.003	-0.090***	-0.003	0.076***	0.041***	0.063***	-0.015***	0.006	0.013**	0.126***	0.045***	0.088***	1.000		
14. Early_Stage	-0.121***	-0.025***	0.035***	-0.090***	-0.054***	-0.056***	0.059***	-0.058***	0.003	-0.130***	-0.056***	-0.105***	-0.549***	1.000	
15. Round_Number	0.104***	-0.063***	-0.043***	0.028***	0.024***	0.035***	0.006	0.107***	0.072***	0.011**	0.184***	0.186***	0.433***	-0.456***	1.000

Table 3: Political Homophily and Investment Decisions

This Table presents coefficient estimates of OLS regressions examining the likelihood of investments by political homophily. The sample includes an observation for each realized deal and counterfactual deals constructed by selecting matches within the same investment year, industry, stage, and state, but involving different VC firms. The dependent variable, *Deal*, is an indicator variable for being an actual deal. The key independent variable, *PHI*, is the partisan similarity between VCs and portfolio companies by using individuals' all history donations. The control variables are defined in Table A1. Columns (1) and (2) include fixed effects for investment year, company, and VC firm, while Column (3) includes *Year* $\times$ *VC* and *Year* $\times$ *Company* fixed effects. Robust standard errors clustered at deal pair level are reported in parentheses. ***, ** and * denote significance at the 1%, 5%, and 10% levels, respectively.

	(1)	(2)	(3)
	Deal	Deal	Deal
PHI	0.0037*** (0.0009)	0.0035*** (0.0009)	0.0031*** (0.0009)
Distance		-0.0021*** (0.0001)	-0.0023*** (0.0001)
Industry_Fit		0.0028* (0.0016)	0.0051** (0.0022)
Company_Age		-0.0085*** (0.0008)	-0.0056** (0.0025)
VC_Partners		0.0020*** (0.0006)	0.0084*** (0.0016)
Early_Stage		-0.0042*** (0.0008)	-0.0142*** (0.0050)
Investment Year FE	Yes	Yes	No
VC FE	Yes	Yes	No
Company FE	Yes	Yes	No
Year $\times$ VC FE	No	No	Yes
Year $\times$ Company FE	No	No	Yes
Observations	1,296,331	1,296,331	1,296,328
Adj. R-squared	0.088	0.089	0.092

Table 4: Robustness Tests

This Table presents the robustness tests on the likelihood of investments by using alternative political homophily measures. The sample includes an observation for each realized deal and counterfactual deals constructed by selecting matches within the same investment year, industry, stage, and state, but involving different VC firms. The dependent variable, *Deal*, is an indicator variable for being an actual deal. *PHI_Year* is the partisan similarity between VCs and portfolio companies by using individuals' year level donations. *PHI_Strong* is the partisan similarity between VCs and portfolio companies by using the Republican index of the individuals whose historical total amount of donations exceed \$2,000. *PHI_Cycle* is the partisan similarity between VCs and portfolio companies by averaging the Republican index of individuals based on their total donations across each election cycle. *PHI_Polarizer* is the partisan similarity between VCs and portfolio companies by using the Republican index equals to 1 (only donates to Republican) and -1 (only donates to Democrats). The control variables are defined in the [Table A1](#). All regressions include fixed effects for investment year, company, and VC firm. Robust standard errors clustered at deal pair level are reported in parentheses. ***, ** and * denote significance at the 1%, 5%, and 10% levels, respectively.

	(1)	(2)	(3)	(4)
	Deal	Deal	Deal	Deal
PHI_Year	0.0034*** (0.0013)			
PHI_Strong		0.0043*** (0.0012)		
PHI_Cycle			0.0034*** (0.0009)	
PHI_Polarizer				0.0023** (0.0009)
Distance	-0.0021*** (0.0001)	-0.0021*** (0.0001)	-0.0021*** (0.0001)	-0.0021*** (0.0001)
Industry_Fit	0.0028* (0.0016)	0.0028* (0.0016)	0.0028* (0.0016)	0.0028* (0.0016)
Company_Age	-0.0085*** (0.0008)	-0.0085*** (0.0008)	-0.0085*** (0.0008)	-0.0085*** (0.0008)
VC_Partners	0.0020*** (0.0006)	0.0019*** (0.0006)	0.0020*** (0.0006)	0.0021*** (0.0005)
Early_Stage	-0.0042*** (0.0008)	-0.0042*** (0.0008)	-0.0042*** (0.0008)	-0.0042*** (0.0008)
Investment Year FE	Yes	Yes	Yes	Yes
VC FE	Yes	Yes	Yes	Yes
Company FE	Yes	Yes	Yes	Yes
Observations	1,296,331	1,296,331	1,296,331	1,296,331
Adj. R-squared	0.089	0.089	0.089	0.089

Table 5: Sinclair Entry as a Shock to Political Homophily

This Table reports the effects of Sinclair entry on political homophily. The dependent variable, *Deal*, is an indicator variable for being an actual deal. *Treat* equals one if the VC firm is headquartered in a DMA that experiences the entry of Sinclair, and zero otherwise. *Post* is a dummy variable that equals one for the years after the entry of Sinclair, and zero otherwise. Columns (3) and (4) includes a dynamic DiD estimation where we replace *Post* with indicators of two pre-treatment year and three post-treatment years. The control variables are defined in [Table A1](#). All regressions include fixed effects for investment year, company, and VC firm. Robust standard errors clustered at deal pair level are reported in parentheses. ***, ** and * denote significance at the 1%, 5%, and 10% levels, respectively.

	(1)	(2)	(3)	(4)
	Deal	Deal	Deal	Deal
Treat × Post	0.0079** (0.0039)	0.0092** (0.0039)		
Treat × Prior (-3)			0.0345 (0.0292)	0.0328 (0.0291)
Treat × Prior (-2)			0.0379 (0.0263)	0.0375 (0.0263)
Treat × Post (+1)			0.0322*** (0.0102)	0.0346*** (0.0101)
Treat × Post (+2)			0.0384* (0.0198)	0.0392** (0.0198)
Treat × Post (+3)			0.0543** (0.0247)	0.0529** (0.0246)
Distance		-0.0040*** (0.0002)		-0.0040*** (0.0002)
Industry_Fit		0.0014 (0.0030)		0.0013 (0.0030)
Company_Age		-0.0095*** (0.0013)		-0.0095*** (0.0013)
VC_Partners		0.0035*** (0.0010)		0.0035*** (0.0010)
Early_Stage		-0.0127*** (0.0015)		-0.0127*** (0.0015)
Investment Year FE	Yes	Yes	Yes	Yes
VC FE	Yes	Yes	Yes	Yes
Company FE	Yes	Yes	Yes	Yes
Observations	589,470	589,470	589,470	589,470
Adj. R-squared	0.208	0.209	0.208	0.209

Table 6: Political Homophily and Investment Success

This Table examines the effect of political homophily on the investment success. The sample includes all realized deals from 2000 through 2021. Models (1) – (2) present the coefficient estimate of OLS regressions, and models (3) – (4) present the coefficient estimate from Cox hazard model. *Exits* is an indicator variable with one if the investment exists via IPO or Mergers and Acquisitions, and zero otherwise. *Time* is the logarithm of the number of days from the investment date to the IPO or M&A exit date. For companies without IPO or M&A Exits, the Time is calculated to the end of 2022. The key independent variable, *PHI*, is the partisan similarity between VCs and portfolio companies. The control variables are defined in Table A1. All regressions include fixed effects for investment year-industry, state, and VC firm. Robust standard errors clustered at VC level are reported in parentheses. ***, ** and * denote significance at the 1%, 5%, and 10% levels, respectively.

	(1)	(2)	(3)	(4)
	Exits	Exits	Time	Time
PHI	-0.050*** (0.018)	-0.044** (0.017)	-0.221*** (0.076)	-0.190** (0.077)
Distance		0.001 (0.002)		-0.006 (0.008)
Industry_Fit		0.034 (0.021)		0.287** (0.114)
VC_Reputation		-0.049 (0.071)		-0.230 (0.279)
VC_Partners		0.006 (0.009)		-0.049 (0.047)
Amount		0.001** (0.001)		0.004* (0.003)
Syndication		0.018*** (0.003)		0.092*** (0.013)
VC_Age		0.008 (0.010)		-0.099** (0.048)
Company_Age		0.011*** (0.004)		0.041** (0.019)
Early_Stage		-0.029*** (0.008)		-0.197*** (0.037)
Year x Industry FE	Yes	Yes	Yes	Yes
State FE	Yes	Yes	Yes	Yes
VC FE	Yes	Yes	Yes	Yes
Observations	37,052	37,052	37,717	37,717
Adj. R-squared	0.273	0.278		
Pseudo R-squared			0.032	0.034

Table 7: Robustness Tests

This Table presents the robustness tests on the relationship between political homophily and investment success. Panel A and B report the OLS and Cox hazard regressions of investment success on the alternative measures of political homophily, respectively. *PHI_Year* is the partisan similarity between VCs and portfolio companies by using individuals' year-level donations. *PHI_Strong* is the partisan similarity between VCs and portfolio companies by using the Republican index of the individuals whose historical total amount of donations exceeds \$2,000. *PHI_Cycle* is the partisan similarity between VCs and portfolio companies by averaging the Republican index of individuals based on their total donations across each election cycle. *PHI_Polarizer* is the partisan similarity between VCs and portfolio companies by using the Republican index equal to 1 (only donates to Republican) and -1 (only donates to Democrats). Panel C reports the baseline regressions including *VC_Rep* and *Company_Rep*, which represent the average Republican index of all VC firm partners and all portfolio company CEOs, respectively. The control variables are defined in Table A1. All regressions include fixed effects for investment year-industry, state, and VC firm. Robust standard errors clustered at the VC level are reported in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

<i>Panel A: OLS regressions for the likelihood of successful exits</i>				
	(1)	(2)	(3)	(4)
	Exits	Exits	Exits	Exits
PHI_Year	-0.040** (0.018)			
PHI_Strong		-0.102*** (0.022)		
PHI_Cycle			-0.048*** (0.018)	
PHI_Polarizer				-0.046** (0.018)
Observations	37,052	37,052	37,052	37,052
Adj. R-squared	0.278	0.279	0.278	0.278
<i>Panel B: Cox hazard model for the time to successful exits</i>				
	(1)	(2)	(3)	(4)
	Time	Time	Time	Time
PHI_Year	-0.129 (0.086)			
PHI_Strong		-0.472*** (0.101)		
PHI_Cycle			-0.219*** (0.082)	
PHI_Polarizer				-0.192** (0.085)
Observations	37,717	37,717	37,717	37,717
Pseudo R-squared	0.033	0.034	0.034	0.034
Controls	Yes	Yes	Yes	Yes
Year x Industry FE	Yes	Yes	Yes	Yes
State FE	Yes	Yes	Yes	Yes
VC FE	Yes	Yes	Yes	Yes

Table 7: Continued

<i>Panel C: Baseline regressions including VC_Rep and Company_Rep</i>		
	(1)	(2)
	Exits	Time
PHI	-0.047*** (0.017)	-0.206*** (0.077)
VC_Rep	0.030 (0.026)	0.091 (0.110)
Company_Rep	-0.017** (0.007)	-0.059** (0.029)
Distance	0.001 (0.002)	-0.006 (0.008)
Industry_Fit	0.034 (0.021)	0.290** (0.114)
VC_Reputation	-0.047 (0.070)	-0.230 (0.274)
VC_Partners	0.005 (0.009)	-0.049 (0.047)
Amount	0.001** (0.001)	0.004* (0.003)
Syndication	0.018*** (0.003)	0.091*** (0.013)
VC_Age	0.008 (0.010)	-0.098** (0.048)
Company_Age	0.011*** (0.004)	0.041** (0.019)
Early_Stage	-0.029*** (0.008)	-0.198*** (0.037)
Year x Industry FE	Yes	Yes
State FE	Yes	Yes
VC FE	Yes	Yes
Observations	37,052	37,717
Adj. R-squared	0.278	
Pseudo R-squared		0.034

Table 8: Partisan Bias around Partisan VC Partners Changes

This Table shows the difference-in-difference estimation result of OLS regression investigating the effect of the change in the partisan affiliation of the VC partners on the investment outcomes. *Exits* is an indicator variable with 1 if the company exits via IPO or M&As, and 0 otherwise. The treated VC firms are defined as those experiencing partner changes that alter the partisan affiliation of the VC firm. The treatment variable, *Treat*, is 1 if the *PHI* increases as *VC_Rep* decreases, -1 if *PHI* decreases as *VC_Rep* increases, and 0 if VC firm does not experience any of the scenarios described. *Prior (Post)* is a binary variable that equals 0 (1) for all the years before (after) the partner's change. The same set of control variables are included as the baseline model, defined in [Table A1](#). All regressions include fixed effects for investment year and VC firm. Robust standard errors clustered at VC level are reported in parentheses. ***, ** and * denote significance at the 1%, 5%, and 10% levels, respectively.

	(1)	(2)	(3)	(4)
	Exits	Exits	Exits	Exits
Treat × Post	-0.027** (0.013)	-0.025** (0.013)		
Treat × Prior (-3)			-0.003 (0.032)	-0.002 (0.032)
Treat × Prior (-2)			0.023 (0.022)	0.021 (0.022)
Treat × Post (+1)			-0.005 (0.013)	-0.003 (0.013)
Treat × Post (+2)			-0.020 (0.014)	-0.018 (0.014)
Treat × Post (+3)			-0.038** (0.016)	-0.038** (0.016)
Distance		-0.005** (0.002)		-0.005** (0.002)
Industry_Fit		0.041* (0.021)		0.041* (0.021)
VC_Reputation		-0.141 (0.300)		-0.144 (0.299)
VC_Partners		0.010 (0.019)		0.011 (0.019)
Amount		0.001 (0.001)		0.001 (0.001)
Syndication		0.017*** (0.004)		0.017*** (0.004)
VC_Age		-0.020 (0.016)		-0.020 (0.015)
Company_Age		0.015** (0.006)		0.015** (0.006)
Early_Stage		-0.024** (0.011)		-0.024** (0.011)
Investment Year FE	Yes	Yes	Yes	Yes
VC FE	Yes	Yes	Yes	Yes
Observations	14,155	14,155	14,155	14,155
Adj. R-squared	0.311	0.317	0.312	0.317

Table 9: External Political Environment and Partisan Bias

This Table reports the moderating effect of external political environment on the partisan bias. Panel A and B present the coefficient estimates from OLS (Model (1)) and Cox hazard models (Model (2)) for alignment with local political preferences and the incumbent President, respectively. *Exits* is an indicator variable with 1 if the company exits via IPO/M&A, and 0 otherwise. *Time* is the logarithm of the number of days from the investment date to the IPO/M&A exit date. *PHI* is the partisan similarity between VCs and portfolio companies. *Company_County_Align*, *VC_County_Align*, *Company_Pres_Align*, *VC_Pres_Align* are variables that range between -1 to +1 with more positive values indicating higher alignment with the County for local political preferences and Pres for incumbent President, respectively. The same set of control variables and fixed effects are included as in our baseline models. Robust standard errors clustered at VC level are reported in parentheses. ***, ** and * denote significance at the 1%, 5%, and 10% levels, respectively.

<i>Panel A: Local Political Alignment</i>		
	(1)	(2)
PHI	-0.046** (0.023)	-0.213** (0.097)
Company_County_Align	-0.016 (0.050)	-0.046 (0.224)
PHI × Company_County_Align	0.041 (0.088)	0.024 (0.379)
VC_County_Align	0.010 (0.063)	0.075 (0.297)
PHI × VC_County_Align	-0.134* (0.081)	-0.640* (0.359)
Company_County_Align × VC_County_Align	-0.132 (0.116)	-0.509 (0.565)
PHI × Company_County_Align × VC_County_Align	0.359** (0.170)	1.941** (0.785)
Observations	37,010	37,673
Adj. R-squared	0.278	
Pseudo R-squared		0.034
<i>Panel B: Incumbent President Alignment</i>		
	(1)	(2)
PHI	-0.075*** (0.021)	-0.324*** (0.103)
Company_Pres_Align	0.012 (0.017)	0.112 (0.074)
PHI × Company_Pres_Align	-0.030 (0.028)	-0.198* (0.119)
VC_Pres_Align	0.001 (0.020)	0.057 (0.087)
PHI × VC_Pres_Align	0.004 (0.029)	-0.051 (0.120)
Company_Pres_Align × VC_Pres_Align	-0.021 (0.033)	-0.061 (0.135)
PHI × Company_Pres_Align × VC_Pres_Align	0.106** (0.043)	0.401** (0.182)
Observations	37,052	37,717
Adj. R-squared	0.279	
Pseudo R-squared		0.034
Controls	Yes	Yes
Year × Industry FE	Yes	Yes
State FE	Yes	Yes
VC FE	Yes	Yes

Table 10: Politically Dependent Companies

This Table presents coefficient estimates of OLS regressions investigating the impact of political dependence on investment success. The dependent variable, *Exits*, is an indicator variable with 1 if the company exits via IPO or Mergers and Acquisitions, and 0 otherwise. *PHI* is the partisan alignment between VC firms and portfolio companies. *Lobby* is a binary variable with 1 if the company has lobbying activity at the investment year, and 0 otherwise. *Contracts* is a binary variable with 1 if the company receives government contracts at the investment year, and 0 otherwise. Models (1) and (2) provide estimates for companies with and without lobbying activities, respectively, while Models (3) and (4) provide estimates for companies with and without government contracts, respectively. The same set of control variables and fixed effects are included as in our baseline models. Robust standard errors clustered at VC level are reported in parentheses. ***, ** and * denote significance at the 1%, 5%, and 10% levels, respectively.

	(1)	(2)	(3)	(4)
	Lobby=1	Lobby=0	Contracts=1	Contracts=0
	Exits	Exits	Exits	Exits
PHI	0.115 (0.104)	-0.046** (0.018)	-0.036 (0.067)	-0.043** (0.018)
Distance	0.008 (0.009)	0.001 (0.002)	0.011 (0.007)	0.000 (0.002)
Industry_Fit	0.218* (0.126)	0.034 (0.021)	0.038 (0.103)	0.034 (0.021)
VC_Reputation	-0.329 (0.248)	-0.042 (0.068)	0.527*** (0.122)	-0.066 (0.069)
VC_Partners	-0.010 (0.046)	0.007 (0.010)	-0.069** (0.034)	0.011 (0.010)
Amount	-0.003** (0.002)	0.001*** (0.001)	-0.001 (0.002)	0.001*** (0.001)
Syndication	0.014 (0.012)	0.018*** (0.003)	0.050*** (0.010)	0.016*** (0.002)
VC_Age	0.172** (0.077)	0.009 (0.010)	-0.033 (0.045)	0.006 (0.011)
Company_Age	-0.009 (0.036)	0.012*** (0.004)	-0.043 (0.028)	0.013*** (0.004)
Early_Stage	0.039 (0.057)	-0.031*** (0.008)	-0.121*** (0.033)	-0.022*** (0.008)
Year x Industry FE	Yes	Yes	Yes	Yes
State FE	Yes	Yes	Yes	Yes
VC FE	Yes	Yes	Yes	Yes
Observations	808	35,973	1,902	34,792
Adj. R-squared	0.749	0.279	0.582	0.277

Table 11: Alternative Types of Homophily

This Table presents the results of the investment success on the *PHI* controlling for other types of similarity. Panel A and B report the OLS and Cox hazard regressions of investment success on the alternative types of homophily, respectively. *Exits* is an indicator variable with 1 if the company exits via IPO or M&A, and 0 otherwise. *Time* is the logarithm of the number of days from the investment date to the IPO or M&A exit date. *PHI* is the partisan alignment between VC firms and portfolio companies. *Gender_Similarity* is a binary variable with 1 if the gender distance between a VC and a company is greater than the sample median, and 0 otherwise, where the gender distance is measured as the absolute value of the difference between the percentage of female partners from a VC firm and the percentage of female CEOs from a company. *Ethnicity_Similarity* is a binary variable with 1 if at least one of the CEOs and anyone of the VC partners share the same ethnicity group. *Education_Similarity* is a binary variable with 1 if at least one of the CEOs and anyone of the VC partners attended the same university. The same set of control variables and fixed effects are included as in our baseline models. Robust standard errors clustered at the VC level are reported in parentheses. denote significance at the 1%, 5%, and 10% levels, respectively.

<i>Panel A: OLS regressions for the likelihood of successful exits</i>				
	(1)	(2)	(3)	(4)
	Exits	Exits	Exits	Exits
PHI	-0.045** (0.017)	-0.044** (0.017)	-0.044** (0.018)	-0.045** (0.017)
Gender_Similarity	-0.019* (0.010)			-0.019* (0.010)
Ethnicity_Similarity		-0.007 (0.011)		-0.008 (0.011)
Education_Similarity			0.000 (0.010)	0.000 (0.010)
Observations	37,052	37,052	36,756	36,756
Adj. R-squared	0.278	0.278	0.277	0.277
<i>Panel B: Cox hazard model for the time to successful exits</i>				
	(1)	(2)	(3)	(4)
	Time	Time	Time	Time
PHI	-0.192** (0.077)	-0.190** (0.077)	-0.191** (0.078)	-0.194** (0.078)
Gender_Similarity	-0.075 (0.049)			-0.074 (0.049)
Ethnicity_Similarity		-0.040 (0.049)		-0.041 (0.049)
Education_Similarity			-0.014 (0.041)	-0.014 (0.040)
Observations	37,717	37,717	37,408	37,408
Pseudo R-squared	0.034	0.034	0.033	0.033
Controls	Yes	Yes	Yes	Yes
Year x Industry FE	Yes	Yes	Yes	Yes
State FE	Yes	Yes	Yes	Yes
VC FE	Yes	Yes	Yes	Yes

Table 12: Does Political Polarization Matter?

This Table provides estimates to explain investment success on the *PHI* during periods of high and low levels of political polarization. Models (1) – (2) present the coefficient estimate of OLS regressions, and models (3) – (4) present the coefficient estimate from Cox hazard model. *Exits* is an indicator variable with 1 if the company exits via IPO or Mergers and Acquisitions, and 0 otherwise. *Time* is the logarithm of the number of days from the investment date to the IPO or M&A exit date. *PHI* is the partisan alignment between VC firms and portfolio companies. *PCI_High* is a binary variable with 1 if the partisan conflict index (*PCI*) is higher than the sample median, and 0 otherwise. *PCI* is calculated using the annual average from [Azzimonti \(2018\)](#). The same set of control variables and fixed effects are included as in our baseline models. Robust standard errors clustered at VC level are reported in parentheses. ***, ** and * denote significance at the 1%, 5%, and 10% levels, respectively.

	(1)	(2)	(3)	(4)
	PCI_High = 0	PCI_High = 1	PCI_High = 0	PCI_High = 1
	Exits	Exits	Time	Time
PHI	-0.025 (0.024)	-0.056** (0.025)	-0.063 (0.103)	-0.329*** (0.123)
Distance	0.000 (0.002)	-0.000 (0.002)	-0.014 (0.011)	-0.007 (0.010)
Industry_Fit	0.037 (0.031)	0.018 (0.029)	0.307* (0.158)	0.151 (0.173)
VC_Reputation	-0.120* (0.069)	-0.052 (0.116)	-0.833** (0.385)	-0.157 (0.587)
VC_Partners	0.019 (0.013)	0.007 (0.017)	-0.032 (0.068)	-0.099 (0.091)
Amount	0.001** (0.001)	0.001 (0.001)	0.005 (0.003)	0.005 (0.004)
Syndication	0.013*** (0.004)	0.022*** (0.003)	0.075*** (0.019)	0.117*** (0.014)
VC_Age	-0.006 (0.015)	0.036** (0.016)	-0.154* (0.081)	0.025 (0.088)
Company_Age	0.010* (0.006)	0.013** (0.006)	0.034 (0.024)	0.058* (0.034)
Early_Stage	-0.031*** (0.011)	-0.024** (0.011)	-0.238*** (0.050)	-0.131** (0.055)
Year x Industry FE	Yes	Yes	Yes	Yes
State FE	Yes	Yes	Yes	Yes
VC FE	Yes	Yes	Yes	Yes
Observations	18,543	18,049	19,155	18,562
Adj. R-squared	0.364	0.170		
Pseudo R-squared			0.038	0.045

Table 13: Separate Exit Routes

This Table provides the multinomial logistic model coefficient estimates for separate exit routes. Model (1) takes three discrete values corresponding to IPOs/M&As, liquidations, and companies that are currently active, respectively. Model (2) reports the multinomial logit model coefficients, where the dependent variable takes three discrete values corresponding to IPOs, M&As, and others respectively. The same set of control variables and fixed effects are included as in our baseline models. ***, ** and * denote significance at the 1%, 5%, and 10% levels, respectively.

	(1)		(2)	
	Exits	Exit_Liquidation	Exit_IPO	Exit_M&A
PHI	-0.225*** (0.059)	0.289 (0.219)	-0.340*** (0.127)	-0.211*** (0.060)
Distance	0.006 (0.005)	0.091*** (0.022)	0.024* (0.012)	-0.000 (0.005)
Industry_Fit	0.230*** (0.067)	0.352 (0.259)	0.442*** (0.148)	0.191*** (0.069)
VC_Reputation	0.417*** (0.062)	0.080 (0.326)	0.876*** (0.118)	0.338*** (0.064)
VC_Partners	0.012 (0.015)	-0.167*** (0.063)	0.069** (0.035)	0.015 (0.016)
Amount	0.011*** (0.002)	-0.010 (0.011)	0.030*** (0.003)	0.007*** (0.002)
Syndication	0.116*** (0.009)	0.206*** (0.032)	0.306*** (0.018)	0.069*** (0.010)
VC_Age	0.130*** (0.016)	0.160** (0.066)	0.182*** (0.040)	0.122*** (0.017)
Company_Age	0.030* (0.016)	-0.164*** (0.054)	-0.033 (0.035)	0.050*** (0.016)
Early_Stage	-0.179*** (0.032)	-0.420*** (0.128)	-0.685*** (0.077)	-0.104*** (0.033)
Investment Year FE		Yes		Yes
Industry		Yes		Yes
State		Yes		Yes
Observations		37,717		37,717
Pseudo R-squared		0.220		0.212

Table 14: Political Homophily and Investment Structure

This Table presents the coefficient estimates of OLS regressions investigating the effects of political homophily on investment structures. *Early_Stage* is a binary variable with 1 if the VC invested in the company at the startup or seed stage, and 0 otherwise. *Round_1st* is a binary variable that takes a value of 1 if the VC invested in the first round, and 0 otherwise. *Syndication* is the total number of VC firms participating in the funding round. *Follow_Round* is the duration from the investment date to the following round financing date. For companies without next round financing, the duration is right-censored at the end of 2022. *PHI* is the partisan alignment between VC firms and portfolio companies. The same set of control variables and fixed effects are included as in our baseline models. Robust standard errors clustered at the VC level are reported in parentheses. ***, ** and * denote significance at the 1%, 5%, and 10% levels, respectively.

	(1)	(2)	(3)	(4)
	Early_Stage	Round_1st	Syndication	Follow_Round
PHI	0.028** (0.013)	0.051*** (0.012)	-0.035** (0.014)	-0.090** (0.039)
Distance	-0.001 (0.001)	0.001 (0.001)	0.004*** (0.001)	0.009*** (0.003)
Industry_Fit	-0.019 (0.017)	-0.184*** (0.016)	0.001 (0.017)	-0.077 (0.048)
VC_Reputation	0.014 (0.065)	-0.056 (0.036)	0.007 (0.047)	0.150 (0.154)
VC_Partners	0.027*** (0.011)	-0.000 (0.009)	-0.006 (0.009)	0.044* (0.025)
Amount	-0.004*** (0.000)	0.003*** (0.001)	-0.007*** (0.001)	-0.007*** (0.002)
VC_Age	-0.061*** (0.011)	-0.067*** (0.010)	0.037*** (0.011)	-0.099*** (0.025)
Company_Age	-0.285*** (0.006)	-0.208*** (0.004)	0.035*** (0.004)	-0.094*** (0.008)
Year × Industry FE	Yes	Yes	Yes	Yes
State FE	Yes	Yes	Yes	Yes
VC FE	Yes	Yes	Yes	Yes
Observations	37,052	37,052	37,052	37,633
Adj. R-squared	0.422	0.271	0.186	
Pseudo R-squared				0.017

Appendix

Table A1: Definition of Variables

Variable	Definition
<i>Panel A: Dependent Variable</i>	
Deal	Dummy variable with one if the VC invested in the company, and zero for counterfactual investments.
Exits	Dummy variable with one if the investment exits via IPO or Mergers and Acquisitions, and zero otherwise.
Time	The logarithm of the number of days from the investment date to the IPO or M&A exit date. For companies without IPO or M&A exits, the Time is calculated to the end of 2022.
Exit_IPO	Dummy variable with one if the investment exits via IPO, and zero otherwise.
Exit_M&A	Dummy variable with one if the investment exits via mergers and acquisitions, and zero otherwise.
Exit_Liquidation	Dummy variable with one if the investment exits via liquidation, and zero otherwise.
Follow_Round	The logarithm of the number of days from the investment date to the next round financing date. For companies without next round financing, the duration is right-censored at the end of 2022.
<i>Panel B: Independent Variable</i>	
PHI	Political homophily index (PHI) is the partisan similarity between VCs and portfolio companies by using individuals' full donation history, ranging from 0 (least similar) to 1 (most similar).
PHI_Year	The partisan similarity between VCs and portfolio companies by using individuals' year-level donations.
PHI_Strong	The partisan similarity between VCs and portfolio companies by using the Republican index of the individuals whose historical total amount of donations exceed \$2,000.
PHI_Cycle	The partisan similarity between VCs and portfolio companies by averaging the Republican index of individuals based on their total donations across each election cycle.
PHI_Polarizer	The partisan similarity between VCs and portfolio companies by using the Republican index equal to 1 (only donates to Republicans) and -1 (only donates to Democrats).
VC_Rep	The average Republican index of all VC firm's partners.
Company_Rep	The average Republican index of all company's CEOs.
<i>Panel C: Control Variable</i>	
Distance	The natural logarithm of the distance in kilometers between the VC and the company.
<i>Continued...</i>	

Variable	Definition
Industry_Fit	The percentage of the investment deals made by VC in the same industry as the company.
Company_Age	The natural logarithm of company age at the investment date, measured as the founding date minus the round date.
VC_Age	The natural logarithm of VC firm age at the investment date, calculated as the founding date of VC firms minus the investment date.
VC_Reputation	The ratio of a VC's historical ten-year cumulative aggregate investment amount over the VC industry (in %). For example, the VC firm's reputation funded in 2000 is calculated as the total investment amount divided by the overall VC industry between 1990 and 1999 (Nahata, 2008).
VC_Partners	The natural logarithm of the total number of VC partners participating in the specific investment deal.
Amount	The total amount invested by VC firms in the specific investment deal (in million dollars).
Round_Number	The number of portfolio company's investment rounds that the VC firm participated in.
Syndication	The total number of VC firms participating in the funding round.
Early_Stage	Dummy variable with one if the VC invested in the company at the startup or seed stage defined by VentureXpert, and zero otherwise.
Gender_Similarity	Dummy variable with one if the gender distance between a VC and a company is greater than the sample median, and zero otherwise. Gender distance is measured as the absolute value of the difference between the percentage of female partners from a VC firm and the percentage of female CEOs from a company.
Ethnicity_Similarity	Dummy variable with one if at least one of the CEOs and any of the VC partners share the same ethnicity within eight groups.
Education_Similarity	Dummy variable with one if at least one of the CEOs and any of the VC partners attended the same university.
County_Rep	The VC firm headquarters' county-level voting shares for the Republican party in the latest presidential election years. The data is collected from the MIT Election Data and Science Lab.
VC_County_Align	The partisan alignment between VC firm and the company's county varying from -1 to +1. A more (negative) value indicates higher (lower) partisan alignment.
Company_County_Align	The partisan alignment between the company and company's county varying from -1 to +1. A more (negative) value indicates higher (lower) partisan alignment.
VC_Pres_Align	The partisan alignment between the VC firm and the U.S. President, varying from -1 to +1. A more (negative) value indicates higher (lower) partisan alignment.
Company_Pres_Align	The partisan alignment between the company and the U.S. President, varying from -1 to +1. A more (negative) value indicates higher (lower) partisan alignment.

Continued...

Variable	Definition
Lobby	Dummy variable with one if the company has lobbying activity at the investment year, and zero otherwise.
Contracts	Dummy variable with one if the company receives government contracts at the investment year, and zero otherwise.
PCI_High	Dummy variable with one if the partisan conflict index (PCI) is higher than the sample median, and zero otherwise. PCI is calculated using the annual average from Azzimonti (2018) .
State	The U.S. state location of the company's headquarters.
Industry	The company's industry by Venture Economics Industry Group classification on VentureXpert.

Table A2: Poisson Pseudo Maximum Likelihood (PPML) Regression

This Table presents PPML regression results from Equation (4). The sample includes an observation for each realized deal and counterfactual deals constructed by selecting matches within the same investment year, industry, stage, and state, but involving different VC firms. The dependent variable, *Deal*, is an indicator variable for being an actual deal. The key independent variable, *PHI*, is the partisan similarity between VCs and portfolio companies by using individuals' all history donations. The control variables are defined in Table A1. Columns (1) and (2) include fixed effects for investment year, company, and VC firm, while Column (3) includes $Year \times VC$ and $Year \times Company$ fixed effects. Robust standard errors clustered at deal pair level are reported in parentheses. ***, ** and * denote significance at the 1%, 5%, and 10% levels, respectively.

	(1)	(2)	(3)
	Deal	Deal	Deal
PHI	0.1429*** (0.0324)	0.1264*** (0.0327)	0.1361*** (0.0382)
Distance		-0.0743*** (0.0027)	-0.0901*** (0.0033)
Industry_Fit		-0.0150 (0.0378)	0.0640 (0.0556)
Company_Age		-0.2262*** (0.0174)	-0.1402** (0.0562)
VC_Partners		0.0956*** (0.0175)	0.4619*** (0.0889)
Early_Stage		-0.1630*** (0.0247)	-0.3078*** (0.1018)
Investment Year FE	Yes	Yes	No
VC FE	Yes	Yes	No
Company FE	Yes	Yes	No
Year $\times$ VC FE	No	No	Yes
Year $\times$ Company FE	No	No	Yes
Observations	1,296,331	1,296,331	1,296,326
Pseudo R-squared	0.172	0.175	0.189

Table A3: Sinclair Entry and Firm-level Republican Indices

This Table presents the regressions investigating the effects of Sinclair's entry on VC partners' and company CEOs' Republican indices. *VC_Rep* is the average Republican index of all VC firm's partners at year *t*; *Company_Rep* is the average Republican index of all Company's CEOs at year *t*. *Sinclair_VC* and *Sinclair_Company* are the binary variables that equal 1 if the VC firm or portfolio company, respectively, is affected by the entry of Sinclair in a given year, and 0 otherwise. The control variables are defined in Table A1. All regressions include fixed effects for investment year, company, and VC firm. Robust standard errors clustered at deal pair level are reported in parentheses. ***, ** and * denote significance at the 1%, 5%, and 10% levels, respectively.

	(1)	(2)
	VC_Rep	Company_Rep
Sinclair_VC	0.0376** (0.0164)	
Sinclair_Company		-0.0060 (0.0237)
Distance	-0.0002 (0.0006)	-0.0008 (0.0008)
Industry_Fit	0.0008 (0.0094)	0.0003 (0.0103)
VC_Reputation	0.0851*** (0.0222)	-0.0217 (0.0317)
VC_Partners	0.0213*** (0.0046)	-0.0015 (0.0054)
Amount	-0.0001 (0.0002)	-0.0001 (0.0004)
Syndication	-0.0020 (0.0013)	-0.0018 (0.0021)
VC_Age	0.0114** (0.0057)	-0.0011 (0.0055)
Company_Age	-0.0070** (0.0029)	-0.0060 (0.0043)
Early_Stage	0.0026 (0.0040)	0.0077 (0.0057)
Investment Year FE	Yes	Yes
VC FE	Yes	Yes
Company FE	Yes	Yes
Observations	34,219	34,219
Adj. R-squared	0.515	0.456