

Corporate vs. Community:
The Impact of Partisan Discord on Firm Performance [☆]

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ABSTRACT

Over the past several decades, Americans have experienced a widening divide in political ideology, and political polarization has attracted increasing attention. We study the effect of partisan discord, i.e., the misalignment between a firm's political positioning and the political ideology of its local community, on firm performance. We predict and find that partisan discord is negatively associated with firm performance because it reduces trust and cooperation from local stakeholders. This negative association is more pronounced in firms that rely more on intra-firm communication, consistent with the increased importance of employees' trust and collaboration for these firms. The negative association is also stronger for firms with higher political risks. We also find that partisan discord damages employees' perceptions of their employer, worsening the "best-employer" rankings of these firms. Firms with high levels of partisan discord also report more internal control material weaknesses, especially those related to employees.

Keywords: political polarization, partisan positioning, political contribution, local community, firm performance, rank-and-file employees, internal control

JEL Classifications: D22, D24, J53, M41

1. Introduction

Party affiliation and political polarization play a significant role in the U.S., impacting not only political activities but also economic decisions (e.g., Christensen et al. 2015; Baloria and Heese 2018; Barber and Blake 2023). A 2022 survey of 722 senior managers and board members conducted by PricewaterhouseCoopers (PwC) found that 66 percent of respondents believed that political polarization in the U.S. posed a moderate to serious risk to their firms. In contrast, only 6 percent believed that polarization was not a risk at all (PwC 2022). Researchers have also shown a growing interest in the impact of political polarization on firms. However, most prior studies focus on the partisan positioning of a firm without considering its interaction with the firm's business environment. We investigate the performance implications of the "partisan discord" between a firm and its local community. We argue that a mismatch in partisan ideology could demoralize local stakeholders such as rank-and-file employees, hinder collaboration, and, hence, harm firm performance. Consistent with this prediction, we find partisan discord is negatively associated with accounting profitability, stock returns, and firm growth. The negative association is stronger when intra-firm communication is more important and for firms with higher political risk. Further analyses suggest that partisan discord leads to less favorable employee reviews and more employee-related internal control material weaknesses (ICMWs).

Individuals with opposing political identities often disagree on critical political issues, such as abortion rights, immigration, and government spending. The divided attitudes toward legal and political policy contribute to *ideological polarization*, and the gap has been widening in the past several decades (Pew Research Center 2022). Moreover, survey evidence shows that, beyond differences in policy-oriented political opinions, people who associate with one political party also generally dislike and distrust those of the opposing political party, a phenomenon known as

affective polarization in the political science literature (e.g., Iyengar and Westwood 2015; Mason 2015). Thus, unsurprisingly, political polarization impacts people’s everyday lives and affects important personal choices such as marriage partners and home sales (Iyengar et al. 2018; McCartney et al. 2024).

Political polarization also impacts firms and their managerial decisions. For instance, Republican-leaning managers adopt more cautious tax avoidance positions and conservative financial accounting policies (Christensen et al. 2015; Cheng et al. 2024). The partisan positioning of firms affects the content and tone of corporate disclosures (Benton et al. 2022; Arikan et al. 2023). Polarized communication can further influence firms’ stakeholders, such as customers, through boycotts (Hou and Poliquin 2022) or buycotts (Neureiter and Bhattacharya 2021). Relatedly, firms delay the release of bad news and manage earnings upward during elections to help support their preferred candidates’ (re-)election (Baloria and Heese 2018; Chen et al. 2024). Firms are also more likely to open new business establishments in locations with voting patterns consistent with their current political positioning (Barber and Blake 2023).

Our study explores the effect of partisan discord, i.e., the misalignment between a firm’s political positioning and the political ideology of its local community. We predict that partisan discord could harm firm performance for several reasons. First, partisan discord could cause rank-and-file employees to lose trust and confidence in top management, lowering morale, discouraging cooperative behavior, and ultimately decreasing productivity (e.g., Gambetta 1988; Miles and Snow 1992; Rousseau et al. 1998). Employees can also face social pressure from families and friends, reducing their enthusiasm for their jobs. A lack of trust between the firm and local suppliers and lenders would make negotiations challenging, making it difficult to obtain the best contracts. Partisan discord could also reduce customers’ willingness to purchase from firms when

they dislike or distrust the top managers and believe their purchases could help the politicians of the opposing party.

We operationalize partisan discord as the absolute value of the difference between a firm's partisan positioning and the political ideology of the population surrounding the corporate headquarters. Prior studies argue that a firm's partisan positioning is demonstrated by the way it apportions political contributions between the two parties (e.g., Lee et al. 2014; Wintoki and Xi 2020; Arikan et al. 2023). We follow this literature and measure a firm's partisan positioning as the percentage of a firm's political contributions to Democratic recipients minus the percentage of contributions to Republican recipients. Next, following Barber and Blake (2023), we use the presidential election voting in the county of a firm's headquarters to proxy for the location's partisan preference. In particular, we calculate the difference between the percentage of votes for the Democratic candidate and the percentage for the Republican candidate. Because we take the absolute difference between the position of the firm and its locale, our partisan discord measure would increase when a firm's political contribution percentage deviates from the locale's voting percentage.

Using a sample of Standard and Poor (S&P) 1500 firms, our main analysis examines the association between partisan discord and three sets of firm performance measures: (1) accounting profitability: return-on-assets (ROA) and operating income, (2) stock-market performance: raw buy-and-hold return and abnormal return, and (3) firm growth: sales growth and employee growth. Consistent with our expectation, partisan discord is negatively associated with all six measures, and the magnitude of the association is economically meaningful. For example, when partisan discord increases by one standard deviation, ROA decreases by 0.43 percentage points or 9.1 percent relative to its sample mean. We also conduct three robustness checks to ensure the

reliability of our results. First, we utilize entropy balancing to achieve covariates balance for firms with high and low partisan discord. Second, we deploy an instrumental variable approach to alleviate the endogeneity problem. Third, we re-estimate our regressions using an alternative partisan discord measure that considers the political contribution amounts. We find consistent results from all three tests.

Next, we investigate the cross-sectional variation in the effect of partisan discord. First, we examine the moderating effect of the importance of intra-firm communication. Prior studies suggest that trust is especially important for firms that rely on employee communication and knowledge-sharing (e.g., Levin and Cross 2004; Barber and Blake 2023). Thus, partisan discord could be more impactful for knowledge-intensive firms, where many employees collaborate on creative tasks, than for labor-intensive firms, where most employees perform routine jobs. Our results support this prediction. Second, we analyze the moderating effect of firm-level political risk (Hassan et al. 2019). We find that the negative association between partisan discord and performance is more pronounced for firms with high political risk, perhaps because heightened political risk draws local stakeholders' attention to firms' political activities and potentially increases their dissatisfaction with the misalignment in political ideologies.

Lastly, we provide more granular evidence showing that partisan discord affects employees. First, we explore a firm's recognition as one of the best employers by *Fortune* magazine and Glassdoor.com, which generate their best-employer lists based on employee survey responses and reviews. We find that, although partisan discord is not significantly associated with a firm's probability of being included on a top employer list, it lowers the position of ranked firms on both lists. Second, we find that partisan discord is positively associated with ICMWs, especially employee-related ICMWs (Guo et al. 2016). This finding is consistent with prior research that

shows the quality and morale of rank-and-file employees play an important role in financial reporting and affect ICMW (Call et al. 2017; Abernathy et al. 2023; Koch and Liang 2024). Also, because ICMWs are negatively associated with operating performance (e.g., Cheng et al. 2013; Feng et al. 2015; Cheng et al. 2018), they could serve as a channel through which partisan discord affects firm performance.

We make several contributions. First, we extend the emerging literature on the effect of polarization on firms. Most studies in this literature examine the impact of a firm's partisan positioning by itself, and to our knowledge, only two recent studies consider the alignment between firms' partisan positioning and that of the President or the government (Arikan et al. 2023; Jiang et al. 2023). In contrast, we focus on the firm's ideological alignment with the population local to its corporate headquarters, which comprises important stakeholders, such as rank-and-file employees and customers. Second, we contribute to the literature on the impact of rank-and-file employees on firm performance. Prior archival studies show that high-quality employees and generous employee-friendly policies are associated with better firm-level outcomes (e.g., Guo et al. 2016; Call et al. 2017). Our findings suggest that partisan positioning affects employees' perception of the firm, impacts their morale and trust, and, hence, influences firm performance. Our findings highlight that top managers and boards should not view political connections and contributions simply as a tool to influence the political process. Instead, the impact on local stakeholders is also important in this era of heightened political polarization.

2. Hypothesis Development

2.1 Firm Political Connections, Partisan Positioning, and Their Influences

Prior research in political economics argues that firms can seek to influence policies in self-serving ways, including aligning themselves with political parties and establishing connections

with politicians (e.g., Stigler 1971; Pelzman 1976; Barron 1989; Snyder 1990; Grier et al. 1994). To form connections, firms can invite politicians to serve as top managers and directors (Faccio 2006) or, perhaps more commonly in the U.S., make political contributions via their Political Action Committees (PACs). PACs are political committees that raise and spend money to support or oppose political candidates, ballot initiatives, or influence legislation. PAC contributions are typically controlled by top managers, and they are disclosed and observable, creating public associations between firms and political parties (Correia 2014). As a result, policymakers and other corporate stakeholders consider a firm's PAC contributions to represent the firm's, especially its top managers', partisan positioning (McDonnell and Werner 2016).

Besides influencing policymaking, prior studies also document a range of other potential advantages of political connections to firms. A stream of research suggests that political connections encourage politicians' interference, providing firms with important resources and opportunities. For example, Faccio et al. (2006) find that politically connected firms are more likely to be bailed out in times of economic distress. Such benefits can improve firms' credit worthiness, helping firms obtain better borrowing terms (Houston et al. 2014). Politicians' motives to intervene also help firms command higher takeover premiums from bidders when acquired (Crocchi et al. 2017). Members of Congress are more likely to own stock in firms that make significant political contributions, and such firms receive more government contracts (Tahoun 2014). Internationally, connections between corporations and politicians are also widespread (Faccio 2006) and can lower taxes (De Soto 1989; Kim and Zhang 2016; Lin et al. 2018).

Moreover, political contributions can also influence the behaviors and outcomes related to individual governmental agencies. Such contributions can take the form of exchanging political contributions for more favorable treatment by regulators. For example, Correia (2014) finds that

firms that make sustained political donations are less likely to be the target of Securities and Exchange Commission (SEC) enforcement action and face lower penalties from prosecution. Alternatively, political contributions can signal a firm's ability and determination to fight an agency on particular issues. Gordon and Hafer (2005) argue and find that nuclear power firms use large political contributions to "flex their muscles" to the Nuclear Regulatory Commission and reduce its inspections of their nuclear power plants.

Consistent with the benefits discussed above, prior empirical research, while somewhat mixed, largely supports a positive relation between political connections and firm value or performance. For example, the extent to which firms support political candidates is associated with future positive abnormal stock returns and profitability (Cooper et al. 2010), and announcements of new political connections are associated with increases in firm value (Faccio 2006). Ovchinnikov and Pantaleoni (2012) find that individuals strategically contribute to politicians in positions that benefit local firms, and such contributions are associated with increases in firm performance. In addition, decisions by some corporations to stop political contributions in the wake of the January 6th Capital Riots are associated with negative abnormal returns, suggesting that such political contributions had, on balance, created corporate value (Poliquin and Hou 2023).

Despite the potential benefits of political contributions, other research posits limits or drawbacks. For example, Schiefer and Vishny (1994) model the relation between managers and politicians as a negotiation in which the economic benefits captured by each depend on the strength of their bargaining positions. The ability of politicians to extract rents suggests that, in some circumstances, the costs of developing connections do not outweigh the benefits (Faccio 2006). Heese et al. (2017) find that politically connected firms are subject to more frequent and thorough comment letter reviews by the SEC, suggesting limits on the effectiveness of contributions in

reducing enforcement.

Relatedly, some prior research proposes that corporate political contributions represent agency problems and are associated with free cash flow problems, harming firm value and performance. For example, Aggarwal et al. (2012) find that corporate political donations are associated with poor corporate governance and negative future excess returns. Hadani and Schuler (2013) find that political contributions outside of regulated industries are negatively associated with market and accounting performance.

In sum, a great deal of theory and evidence suggests that political contributions represent an investment that can potentially create value in the form of reduced regulation and other forms of beneficial government intervention. However, there is some mixed evidence on the impact on firm performance. Theoretically, the marginal benefits of corporate political contributions must be weighed against the marginal costs to determine if incremental political connections are beneficial. In the next subsection, we examine a potential cost that arises from political polarization, specifically in the form of the potential misalignment between a firm's partisan positioning (as reflected in its political connections) and the partisan preferences of stakeholders such as local employees.

2.2 Political Polarization and The Impact of Partisan Discord

Political identity, partisanship, and polarization have become increasingly prevalent in today's society. In the U.S., supporters of the Republican and Democratic parties are sharply divided along ideological lines, and political science research suggests a growing dislike and distrust of members of other political parties (Iyengar et al. 2019). The impact of partisan group identity appears to go beyond disagreement on key policy issues. Survey evidence suggests that both Republicans and Democrats increasingly dislike or loathe members of the opposite party in a

phenomenon known as affective polarization (Iyengar et al. 2012), while research on implicit bias suggested a deeply ingrained partisan bias in favor of members of one's own party and against members of the other party (Iyengar and Westwood 2015). This partisan bias extends a willingness to denigrate and avoid members of the opposing party and shapes how voters critically evaluate the content of news (Lelkes and Westwood 2016). The desire to avoid members of the opposing party impacts a wide range of personal decisions, including online dating (Huber and Malhotra 2017), marriage partners (Stoker and Jennings 1995), and the likelihood of home sales when someone of the opposing party moves next door (McCartney et al. 2024). These findings also suggest that the political ideology of a firm's business environment and its alignment with the firm's partisan positioning could have an important impact on firms.

Two recent studies explore such alignment with powerful politicians such as the president or the government in general. Arian et al. (2023) argue that when CEOs' partisan position is the same as the president of the U.S., they would expect the economic policies to be more beneficial to their firms more positively. They find that this positive expectation further leads to more optimistic disclosure choices such as issuing more overly optimistic managerial forecasts, using more positive-toned words in 10-Ks, and reducing conservatism in financial reporting. Jiang et al. (2023) study a sample of Chinese firms and find that if firms' actions align with government agendas, they enjoy less negative market reaction when policy uncertainty heightens.

In contrast to these two studies that take a "top-down" view and investigate the alignment with powerful politicians, we adopt a "bottom-up" perspective and focus on the alignment with a firm's local population. Research suggests that the dislike and distrust for opposing party members also impact organizational decisions through their impact on individual stakeholders such as rank-and-file employees. For example, Barber and Blake (2023) find that firms are more likely to

establish new facilities in geographic locations that are ideologically similar to the firm's corporate headquarters location. As labor markets are primarily local (Fernandez and Su 2004), Barber and Blake (2023) attribute this effect to the importance that new locations are ideologically aligned with the firm's existing workers. The effect on location is more pronounced in knowledge-intensive activities and young firms; settings in which collaboration, building connections, and informal information sharing are more important. These results underscore the importance of ideological alignment among employees to firm decisions.

Relatedly, Hambrick and Wowak (2021) develop a stakeholder alignment model in which CEO activism will cause stakeholders who have a different ideological stance to feel less identification with the firm. Wowak et al. (2022) examine the impact of 88 CEOs who signed a public letter opposing the North Carolina state legislature's Public Facilities Privacy and Securities Act, known as House Bill 2 (HB2). This controversial "bathroom bill" required schools and local and state government facilities with single-gender bathrooms to restrict access to only those people with the corresponding sex listed on their birth certificate. Wowak et al. (2022) characterize the signing of an open letter opposing HB2 as a liberal-aligned act and find that a signature by a CEO of an organization with more (less) liberal employees leads to an increase (decrease) in organizational commitment, as measured by Glassdoor.com ratings. In addition, CEO activism was associated with increased partisanship – more liberal (more conservative) workforces responded to CEO activism by individually donating more (less) to the Democratic party, candidates, or PACs.

The studies discussed above suggest that the political ideology of a firm's local community, an important source of rank-and-file employees, could have a significant impact on firms, and its alignment with the firm's partisan positioning is critical to firms' success. Moreover, employees'

local families and friends, as well as the overall local society, also influence employees' political views through everyday interactions. They could even put pressure on the employees if the firm where they work has an opposing partisan positioning, decreasing employees' morale and productivity.

In addition, political polarization could also affect other local stakeholders. For example, prior studies suggest that even public firms heavily rely on local credit markets (e.g., Hou et al. 2023; De Franco et al. 2024). Thus, if local bankers observe a firm facing political ideology misalignment challenges from its employees, or if the bankers themselves have an opposing political ideology, then it could be hard for the firm to obtain good loan terms. Similarly, local suppliers and customers might be less willing to form business relationships with a firm that they dislike or distrust due to the differences in political ideology.¹

Overall, prior research suggests that firms and top managers take observable political positions through PAC donations. An alignment between a firm's and local stakeholder ideology is important for intra- and inter-firm collaboration, information sharing, and organizational commitment. We posit that a disconnect between the partisan positioning of the firm and the political ideology of the local stakeholders, which we label "partisan discord," will reduce firm performance because it lowers local stakeholders' trust and discourages cooperation. This leads to our hypotheses (stated in the alternative form):

H1: Partisan discord, i.e., the misalignment between a firm's political positioning and the political ideology of the local population, is negatively associated with firm performance.

We acknowledge, however, that the association between partisan discord and firm performance could be statistically insignificant for a few reasons. First, although PAC

¹ We acknowledge, however, local suppliers and customers are less important for big firms such as the S&P 1500 firms examined in this study.

contributions data are publicly available, local stakeholders such as rank-and-file employees might be unaware of or pay little attention to them unless they generate sufficient local publicity. Second, if stakeholders view political connections as a pure business activity to gain political benefits instead of an expression of the top managers’ political ideology, then they would perhaps be more tolerant of such activities. Third, if a firm primarily works with stakeholders who share the firm’s political ideology, then its “actual” partisan discord would be small, and its performance would not be affected.

3. Research Design

3.1 Partisan Discord Measure

Our partisan discord measure captures the difference between a firm’s partisan positioning and the partisan preference of the firm’s headquarters location. Following Arikan et al. (2023), we define a firm’s partisan positioning based on its differential political contributions to Democratic and Republican recipients as follows.

$$Party_Firm_{it} = \frac{Contribution\ to\ Democrats_{it} - Contribution\ to\ Republicans_{it}}{Contribution\ to\ Democrats_{it} + Contribution\ to\ Republicans_{it}} \quad (1)$$

By design, *Party_Firm* increases with the contribution to the Democratic party and varies between -1 and +1. If a firm solely contributes to Democratic (Republican) recipients, *Party_Firm* equals +1 (-1). If a firm contributes to the two parties equally, *Party_Firm* equals 0. To construct the variable, we follow prior literature and obtain firms’ PAC contribution data from the Federal Election Commission (FEC) (e.g., Correia 2014; Heese et al. 2017). The FEC database contains detailed transaction-level data on political contributions, including contribution amount, transaction date, contributor information (e.g., contributing PAC name and affiliated organization name), and recipient information (e.g., recipient name and partisan affiliation). For each contributor-year combination, we first calculate the total contribution amount separately for

Democratic and Republican recipients and then calculate $Party_Firm$ based on equation (1).² Finally, we link the calculated $Party_Firm$ data with firm financial data by matching the Compustat company names with the contributing organization names.³

Next, we measure the partisan preference of each firm’s headquarters location using the most recent presidential election voting data obtained from the Massachusetts Institute of Technology (MIT) election lab. This county-level data covers all presidential elections between 2000 and 2020. We mimic the firm partisan positioning formula (equation (1)) and use the equation below to calculate a county’s partisan preference.

$$Party_County_{it} = \frac{Votes\ for\ Dem.\ Candidate_{it} - Vote\ for\ Rep.\ Candidate_{it}}{Votes\ for\ Dem.\ Candidate_{it} + Vote\ for\ Rep.\ Candidate_{it}} \quad (2)$$

Like $Party_Firm$, $Party_County$ also increases with the votes for the Democratic candidate and varies from -1 to +1. We merge the calculated $Party_County$ with firm financial data based on a firm’s headquarters location. Because Compustat only provides current headquarters locations, we obtain the historical headquarters data from the augmented 10-X header dataset (Basu and Liang 2019).⁴

Finally, we define partisan discord as the absolute value of the difference between a firm’s partisan positioning and its headquarters county’s partisan preference as follows.

$$Party_Discord_{it} = ABS(Party_Firm_{it} - Party_County_{it}) \quad (3)$$

The min of $Party_Discord$ is 0. It occurs if a firm splits its political contribution to Democratic and Republican recipients with a percentage that is exactly consistent with how the

² Some prior studies compute a firm’s or a CEO’s partisan positioning by aggregating political contributions at the firm or CEO level without considering within-firm or within-CEO variations (e.g., Arian et al. 2023). In contrast, our analysis is at the firm-year level because we are interested in the within-firm variations and their effect on performance. Indeed, Table 2 shows that partisan discord increases with CEO age. As discussed below, we include firm fixed effects in our regressions, which would completely subsume an aggregate firm-level partisan positioning.

³ We first use a fuzzy matching algorithm to identify potential matches and then manually check each potential match to determine the most appropriate match.

⁴ We download 10-X header dataset from <https://sraf.nd.edu/data/augmented-10-x-header-data/>.

county surrounding the corporate headquarters votes for the presidential candidates. In contrast, the max of *Party_Discord* is 2, which happens when a firm only contributes to Republicans, but the county surrounding the corporate headquarters only votes for the Democratic candidate, and *vice versa*.

3.2 Regression Models

To test our hypothesis, we regress firm performance on partisan discord and control variables as follows.

$$Performance_{it} = \beta Party_Discord_{it} + \delta Controls_{it} + \omega_i + \nu_t + \epsilon_{it} \quad (4)$$

The dependent variable, *Performance*, is a proxy for firm performance. Our hypothesis predicts a negative association between partisan discord and firm performance, so we expect β to be negative. Prior studies often examine performance measures based on accounting profitability and stock returns (e.g., Ovtchinnikov and Pantaleoni 2012; Lins et al. 2017). Although these performance measures are often positively correlated, a key difference is that accounting profitability mainly focuses on the current period, while stock return further incorporates the expectations about future cash flows. Accounting profitability also includes accruals that are earned or incurred but not realized as cash flows.

Our hypothesis is agnostic about the type of performance, so we examine both measures to improve reliability. Our main accounting profitability measure is ROA, which is defined as earnings before extraordinary items scaled by beginning-of-year total assets. We also consider operating income (also scaled by beginning-of-year total assets) for robustness. Operating income excludes non-operating earnings (e.g., gains from one-time transactions) from ROA and is often more persistent (Fairfield et al. 1996). Hence, the effect of partisan discord on operating income could be more important to firms and their stakeholders. For stock returns, we examine both annual

buy-and-hold returns and abnormal returns. Following Brav et al. (2000), we define abnormal returns as stock returns minus the average returns of firms in the same market value and book-to-market quintiles.⁵ In addition, we also investigate sales growth and employee growth. Sales growth reflects a firm's demand change, directly related to its customer reputation. Employee growth can signal managers' expected future demand because firms would not hire more employees unless they expect a sustainable high future demand (Anderson et al. 2003; Banker et al. 2013). Employees voluntarily leaving a firm due to partisan discord could also lead to employee declines. Appendix A provides details on variable definitions and data sources.

Following prior performance studies, our regressions control for firm size (defined as log of market value for the return regressions and log of total assets for all other regressions), book-to-market ratio, leverage, receivables, inventories, property, plant, and equipment (PP&E), research and development (R&D) expenditure, and indicators for restructuring and acquisition activities. We also include a firm-President partisan discord measure, which is defined as the absolute difference between a firm's partisan positioning and the President's party (+1 for Democratic and -1 for Republican). Because firms' political contributions are affected by their top management and potential agency problems (Aggarwal et al. 2012), our regression further controls for CEO and governance characteristics including a male CEO indicator, CEO age, CEO turnover, CEO duality, board size, board independence, and a board data missing indicator.⁶ Lastly, we add five risk-related controls to the return regressions: idiosyncratic risk and the loadings on the three Fama-French factors and the momentum factor (Lins et al. 2017).⁷

⁵ We use all firm-years in the Compustat and CRSP databases to calculate the average returns. For each year, we sort firms into a 5×5 matrix based on market value and book-to-market ratio quintiles using beginning-of-year data. We then calculate the equally-weighted average returns for each matrix cell.

⁶ Following Cassell, et al (2013) and Heese et al. (2017), we do not drop firm-years with missing board data. Instead, we include an indicator for these firm-years to capture their average performance.

⁷ Factor loadings are generated by regressing monthly excess return (i.e., stock return minus the risk-free rate) on the four factors. We perform a rolling regression for each firm using data from the previous five years while requiring at

We include firm fixed effects ω_i and year fixed effects ν_t . They capture the effects of firm-level time-invariant characteristics and market-wide time trends. Firm fixed effects are critical for our research design because they help us focus on the within-firm, instead of cross-sectional, variations in partisan positioning, strengthening causal inferences. We cluster standard errors at the firm level.

4. Sample Selection and Descriptive Statistics

4.1 Data and Sample Selection

As discussed above, our PAC contribution and presidential election data are from the FEC and the MIT election lab, respectively. Our sample period is 2000 to 2021 with a focus on the presidential election years (e.g., 2000, 2004, ..., and 2020) and the year immediately following the presidential elections (2001, 2005, ..., and 2021). This is because people often pay more attention to political activities in those years, and partisan discord would likely have a stronger effect, improving the power of our tests. Like Hadani and Schuler (2012) and Baloria (2022), we examine the Standard & Poor (S&P) 1500 firms that are covered by the Execucomp database. We obtain financial statement, stock return, CEO, and board data from Compustat, CRSP, Execucomp, and ISS databases, respectively. Because we study firms' and their respective locales' political activities in the U.S., we restrict our sample to domestic firms. We exclude firms with non-positive total assets or missing data for our regressions.⁸ This sample selection process generates our main sample containing 3,990 records for the ROA, operating income, and sales growth regressions. Due to insufficient return and employee data, the sample size decreases to 3,719 and 3,962 for the returns regressions and employee growth regression, respectively.

In additional analyses, we examine other outcomes such as being listed as a “best employer”

least 12 months of valid return data. Idiosyncratic risk is the standard deviation of the residuals from the regression.

⁸ We set the value to zero for missing long-term debt, short-term debt, receivables, inventory, and R&D data.

by *Fortune* or Glassdoor and ICMW. We also examine the moderating effect of firm-level political risk (Hassan et al. 2019). The sample sizes for these analyses are often smaller because they require more data and sometimes focus on a specific subgroup of firms or years. We obtain ICMW data from Audit Analytics and firm-level political risk data from Professor Tarek Hassan's website.⁹

4.2 Descriptive Statistics

Table 1 reports the descriptive statistics of our sample. Although *Party_Discord* ranges from 0 to 2 theoretically, we find that the mean and median of *Party_Discord* are 0.560 and 0.526, respectively, which are less than 1, the midpoint of the range. In fact, even the third quartile of *Party_Discord* (0.797) is less than 1. This observation is consistent with firms choosing business locations that are aligned with their partisan positioning (Barber and Blake, 2023). In contrast, the mean and median of *President_Discord* are 0.887 and 0.864, respectively. They are much closer to 1, suggesting that firms do not significantly change their partisan positioning when a candidate from a different party wins the presidential election.

The means of the performance variables, including abnormal return, are all positive, which is perhaps because the S&P 1500 firms are better-performing firms selected by S&P Global. Relatedly, 5.6 percent of our sample firms experienced ICMW, lower than the ICMW percentages reported in prior literature that examines the entire market (often about 10.0 percent, e.g., Hoitash and Hoitash 2018). This is, again, consistent with S&P 1500 firms being better on average.

Table 2 examines the relation between partisan discord and other firm characteristics (i.e., our control variables) in two ways. First, columns I and II report the correlations between *Party_Discord* and other characteristics and their p-values, respectively. Second, we split the sample into high and low *Party_Discord* groups based on the median and then compare the means

⁹ Professor Tarek Hassan's website is <https://www.tarekhassan.net/>.

of the characteristics in columns III to VI. The results of these two approaches are highly consistent. We find a positive relation between partisan discord and book-to-market ratio, suggesting that firms with higher partisan discord have less (expected) growth opportunities. This finding is consistent with partisan discord harming firm growth, albeit it is based on a univariate cross-sectional analysis. We also find that partisan discord increases with current assets (receivables and inventories) and fixed assets (PP&E), but decreases with R&D. Lastly, firms with older CEOs and larger boards often have higher partisan discord, indicating that corporate governance and agency problems affect partisan discord.

5. Empirical Analysis

5.1 Main Results

Table 3 examines the association between partisan discord and performance, which contains six columns for the six performance measures discussed above. For all columns, the coefficient on partisan discord is negative and significant at the 5 percent level or better, supporting our hypothesis. For instance, the coefficient is -0.0122 for the ROA regression, indicating that ROA would decrease by 0.0043 ($= -0.0122 \times 0.353$) when a firm's partisan discord increases by one standard deviation. This decrease is about 9.1 percent ($= 0.0043/0.047$) and 5.3 percent ($= 0.0043/0.081$) of the mean and standard deviation of ROA for our sample, respectively, suggesting the effect of partisan discord on ROA is economically meaningful. The effect of a one-standard-deviation increase in partisan discord on the other performance measures is similar, ranging from 4.1 percent (for operating income) to 6.2 percent (for abnormal returns) relative to the standard deviations of the performance measures.

The signs of the coefficients on the control variables are largely consistent across the six columns and with those reported in prior literature (e.g., Lins et al. 2017). For example, we

consistently find that all performance measures are negatively associated with size and book-to-market ratio, indicating that larger firms and firms with less growth opportunities perform worse. Restructuring and CEO turnover are also negatively associated with performance. Finally, we find that the coefficient on firm-President partisan discord is often statistically insignificant, and its magnitude is much smaller than the magnitude of the coefficient on firm-locale partisan discord, suggesting that firm-President partisan discord has a limited effect on performance.

5.2 *Evidence from Entropy Balancing*

As shown in Table 2, firms with high partisan discord significantly differ from firms with low partisan discord in many characteristics such as book-to-market ratio, PP&E, and CEO age. We have included all these variables in the regression, but the imbalance of covariates could still cause biases. To address this concern, we deploy entropy balancing, a method aiming to balance the covariates and improve statistical inferences (McMullin and Schonberger 2022).

Because partisan discord is a continuous treatment variable, we follow the prior literature and discretize it by creating a treatment indicator variable that equals 1 if partisan discord is above its median, and 0 otherwise (e.g., Armstrong et al. 2010). Next, we balance all control variables (excluding the fixed effects) for the treatment firms (treatment indicator = 1) with the control firms (treatment indicator = 0). We perform entropy balancing for each regression based on its specific sample and control variables. For example, idiosyncratic risk and loadings on risk factors are used in entropy balancing for the return regressions but not for the other regressions. In untabulated results, we find that covariate balancing is achieved for all regressions.

Table 4 reports the regression results after incorporating the weights generated from entropy balancing. We find that the coefficient on partisan discord is negative and significant at the 5 percent level or better for all performance measures, consistent with our main findings. The

magnitudes of the coefficients are also close to or slightly larger than those reported in Table 3. These observations suggest that the concern of the biases stemming from covariate imbalance is small.

5.3 *Endogeneity*

Because partisan discord is not randomly assigned to firms, there is potentially an endogeneity problem. For example, if partisan discord is correlated with an omitted control variable that could also influence performance, then the coefficient on partisan discord is biased. We note that because our regressions contain firm fixed effects, they have already controlled for the effect of characteristics that are largely stable, such as “firm type” and “local culture.” Thus, for example, endogeneity concerns related to firm-location matching (e.g., Democratic-leaning firms are often located in counties with a strong Democratic base) have been largely addressed.

To further address the endogeneity problem, we use an IV approach. Because partisan discord has two components, the firm’s partisan positioning and the locale’s partisan preference, we construct the IV based on variables correlated with these components but likely exogenous to firms’ current-period performance. Specifically, following the logic of prior studies (e.g., Correia 2014; Kim and Zhang 2016), we expect firm partisan positioning to be positively correlated with the average partisan positioning of other firms in the same industry (denoted as $\overline{Party_Firm}_{it}$). We also expect that neighborhood partisan preference in 1996 (denoted as $Party_County_{i,1996}$, i.e., presidential election year right before our sample period) to be positively correlated with their partisan preference during our sample period.¹⁰ Hence, we construct an IV that is the absolute value of the difference between them as follows.

$$IV_{it} = ABS(\overline{Party_Firm}_{it} - Party_County_{i,1996}) \quad (5)$$

¹⁰ Because the MIT election lab only covers 2000 and later, we acquire the 1996 election data from Dave Leip’s Atlas of U.S. Presidential Elections: <http://uselectionatlas.org>.

A valid IV must satisfy the relevance condition and the exclusion restriction. We test the relevance condition with the first stage of the Two-Stage Least Squares (2SLS) regression and discuss the results below. Because our model is not over-identified, we cannot test the exclusion restriction statistically. That said, we argue that our IV will likely satisfy the exclusion restriction because $\overline{Party_Firm}_{-it}$ is not chosen by the focal firm, and because $Party_County_{i,1996}$ is predetermined and hence unaffected by the focal firm's current-period political activities or performance, especially conditioning on firm fixed effects being included (Bartik 1991; Goldsmith-Pinkham et al. 2020).

Table 5 presents the results of the 2SLS regressions. Again, we reexamine all six performance variables. In the first stage, we find the coefficient on the IV to be positive and significant at the 1 percent level in all columns. The partial F-statistics range from 68.35 to 72.42, greater than the thresholds suggested by Stock et al. (2002). Thus, the IV is strong, and the relevance condition is satisfied. In the second stage, the coefficient on partisan discord is negative and significant for all performance variables, consistent with our main findings. The magnitude of the coefficient is greater than those reported in Table 3. A possible explanation is that 2SLS estimates the local average treatment effect, i.e., the effect of the variations in partisan discord stemming from the variations in the IV. In contrast, linear regressions estimate the average treatment effect, i.e., the effect of partisan discord regardless of its sources.

5.4 *Alternative Partisan Discord Measure*

Our main partisan discord measure focuses on how a firm splits its political contribution between recipients of different parties. This definition is consistent with the partisan positioning measures in the prior literature (e.g., Lee et al. 2014; Wintoki and Xi 2020; Arikan et al. 2023), but a possible limitation is that it is based on the proportion of contributed dollars but does not take

into account the total contribution amount. It is possible that total contribution amount can amplify the effect of partisan discord.¹¹ Thus, we also examine an alternative partisan discord measure as follows.

$$Alt_Party_Discord_{it} = Party_Discord_{it} \times \ln(amount_{it}) \quad (6)$$

where *amount* is a firm's total political contribution to the Democratic and Republican recipients.

We re-estimate regression (4) using this alternative measure and report the results in Table 6. The coefficient on the alternative measure is negative and significant for all performance measures, consistent with our main results.

5.5 *The Moderating Effect of Intra-Firm Communication Importance*

In this subsection, we investigate the moderating effect of the importance of intra-firm communication. As discussed above, partisan discord could reduce rank-and-file employees' trust in top managers. Prior studies find that a lack of trust creates communication barriers and knowledge-sharing within firms (e.g., Levin and Cross 2004; Foss et al. 2010). Such communication barriers could be especially harmful to knowledge-intensive firms, for which business success relies heavily on utilizing and integrating the knowledge distributed throughout the organization (Swart and Kinnie 2006; von Nordenflycht 2010; Barber and Blake 2023). For example, managers of a pharmaceutical firm need detailed information on the progress and potential of all its drug development projects to decide how to allocate resources optimally. Moreover, employees in knowledge-intensive firms often work as a team to, for example, develop new products, and poor individual performance due to low morale could delay the entire team's progress (West and Hirst 2005) and lead to significant product-market consequences such as more

¹¹ We acknowledge that, *a priori*, it is unclear whether the total contribution amount would play a role. If *Party_Discord* is purely viewed as a property of a firm's political contributions, then the contribution amount would likely have an impact. In contrast, if *Party_Discord* is viewed as a proxy for a firm's core values and policies, then the contribution amount might not have an incremental effect.

similar competing products (Glaeser and Landsman 2021). In contrast, employees of labor-intensive firms often perform isolated, routine tasks, and hence, communication could be less important. Thus, we predict that the negative association between partisan discord and performance is stronger for knowledge-intensive firms and weaker for labor-intensive firms.

Following the prior literature (e.g., Dube and Zhu 2021; Barber and Blake 2023), we measure knowledge intensity as R&D expenditure per employee, *R&DPerEmp*, and measure (the inverse of) labor intensity as total assets per employee, *AssetsPerEmp*. These moderating variables are measured immediately prior to the most recent presidential election so that they are not affected by partisan discord (e.g., we use data from 1999 for observations from 2000 and 2001). We add these moderating variables and their interactions with partisan discord to our main regression (4). Based on our prediction, the coefficient on the interaction would be negative.

Panel A of Table 7 examines the moderating effect of knowledge intensity. Consistent with our prediction, we find the coefficient on *Party_Discord* × *R&DPerEmp* is negative and significant at the 10 percent level or better for accounting profitability and stock return performance, although the coefficient is insignificant for firm growth. Panel B focuses on labor intensity, and the coefficient on *Party_Discord* × *AssetsPerEmp* is negative and significant at the 10 percent level or better for five out of six performance variables, with sales growth being the exception. Thus, our results generally support that the negative effect of partisan discord is stronger when intra-firm communication is more important.¹²

5.6 *The Moderating Effect of Firm-Level Political Risk*

We next examine the moderating effect of a firm-level composite measure of political risk, *Political_Risk*, created by Hassan et al. (2019). In particular, Hassan et al. (2019) analyze firms'

¹² The results are weaker for firm growth variables, perhaps because the moderating effect is more salient for “levels” (i.e., accounting profitability and stock return) than for “changes.”

conference calls, identify two-word combinations (bigrams) related to political risks, and aggregate each bigram based on a weight that reflects its relevance to political topics. Top bigrams contributing to the measure are, for example, “the constitution,” “the states,” “public opinion,” “interest groups,” and “of government.” Conceptually, this measure captures managers’ perceived political risks to their firm stemming from policies, policymakers, and the general public. Prior research finds that political risk increases firms’ political donations and influences firm-level outcomes such as capital investment and borrowing costs (Hassan et al. 2019; Gad et al. 2023).

The sign of the moderating effect of political risk could be positive or negative. On the one hand, if partisan discord mainly arises from the incremental political contributions firms make to mitigate the heightened political risk, then managers can perhaps justify the partisan discord more easily to its local stakeholders, and the negative effect of partisan discord could be smaller. On the other hand, local stakeholders, such as employees, could be more attuned to the firm’s political activities when its political risk is high. Thus, the misalignment in political ideology would become more salient, intensifying the controversy of a firm’s political positioning and increasing the effect of partisan discord. It is also possible that managers devote more time to political-risk topics in conference calls when they feel partisan discord has a more negative effect on their firms.

As above, we test for a moderating effect by adding *Political_Risk* and its interaction with partisan discord to regression (4).¹³ The main reason for the sample size decline is that the political risk data starts in 2002. Table 8 reports the results. We find that the coefficient on *Party_Discord*×*Political_Risk* is negative for all six performance measures and significant at the

¹³ Hassan et al.’s (2019) original measure is based on quarterly conference calls, so multiple values could exist for each firm-year observation. In such a case, we use the maximum political risk of the year, which reflects the highest uncertainty a firm faces during the year that can potentially attract the greatest attention from the local community. We find consistent but slightly weaker results if we use the average political risk instead (the significance of the coefficient on the interaction reduces from the 5 percent level to the 10 percent level for employee growth).

10 percent level or better for five measures. Thus, our results suggest that the negative effect of partisan discord is more pronounced when a firm's political risk is higher.

5.7 *Partisan Discord and Best Employer Ranking*

We argue that an important channel through which partisan discord affects performance is by reducing employees' morale, belonging, and hence productivity. This additional analysis provides evidence to support this argument by examining employer rankings.

Following the prior literature (e.g., Guo et al. 2016), we rely on employees' reviews and survey responses about their employers as proxies for their morale and sense of belonging. Our first measure is the 100 Best Companies to Work For list published by *Fortune* magazine. Starting in 1998, *Fortune* surveys employees to obtain data on multiple employer satisfaction topics, including whether they are proud of their work and company and if they enjoy working with their colleagues. Partisan discord could negatively influence employees' responses to these questions, lowering their employers' rankings or even causing their employers to be removed from the list. Similarly, we also examine the 50 Best Places to Work list published by Glassdoor.¹⁴ Glassdoor uses its proprietary algorithm to create this list based on employee reviews of their employers or former employers each year. These reviews cover topics such as firm culture and value, which could again be affected by partisan discord.¹⁵

For each best employer list, we re-estimate regression (4) by examining two dependent variables: an indicator for being on the list and the ranking within the list for ranked firms.¹⁶

Although the on-the-list indicator is a binary variable, we elect to tabulate the results from linear

¹⁴ Glassdoor expanded the list to 100 Best Places to Work in 2018. To be consistent with the data in earlier years, we focus on the top 50 only.

¹⁵ We could not examine the raw Glassdoor ratings because Glassdoor has stopped accepting research proposals or sharing data with academics when this study is conducted.

¹⁶ *Fortune* and Glassdoor publish their lists for year T based on the employee surveys and reviews in year T-1. Thus, we merge year T's list with financial records in year T-1.

probability models because logit models are biased for rare events such as being recognized as one of the best employers (King and Zeng 2001). Timoneda (2021) finds that linear probability models work better when there are firm fixed effects even if the dependent variable is binary. Our results are, however, consistent if we estimate logit models instead. For the ranking within a list, we estimate tobit regressions because rankings are right-censored (100 for the Fortune list and 50 for the Glassdoor list).¹⁷ We drop firms with less than 1,000 employees from the sample because they are not eligible for the lists.¹⁸ Finally, because Glassdoor was launched in June 2008 and took a few years to gain popularity, we examine the 2012 election and later for the Glassdoor analysis.

Table 9 shows the results. In columns I and III, we investigate whether partisan discord affects a firm being on the best employer lists. We find the coefficient is negative but statistically insignificant, failing to find an effect. In columns II and IV, we examine the relation between partisan discord and best employer ranking for ranked firms. The coefficient on partisan discord is positive and significant at the 5 percent level, suggesting that partisan discord leads to lower rankings. In terms of magnitude, when partisan discord increases by one standard deviation, a firm's Fortune rank would be lowered by about 8 places ($= 22.9877 \times 0.353$). Overall, our results support that partisan discord negatively affects employees' evaluation of their employers, although such effect is not significant enough to change whether a firm is recognized as a best employer (presumably because there are many other first-order factors such as employee training, support, and benefits).

¹⁷ We tabulate the results of tobit regressions that replace the firm fixed effects with firm random effects. Greene (2004) finds that fixed effects in tobit models cause a special type of incidental parameter problem that does not seriously bias the coefficient but biases the standard errors and causes over-rejection. When we add firm fixed effects to the model, we find consistent results, and the magnitude of the coefficient on partisan discord becomes slightly greater. However, the z-statistics become very large or sometimes even cannot be generated by Stata.

¹⁸ Starting 2014, Glassdoor also publishes 50 Best Places to Work for firms with less than 1,000 employees. To be consistent with the data in earlier years, we focus on the large firms only. In untabulated results, we find consistent results when we include the small firms.

5.8 *Partisan Discord and Internal Control Material Weaknesses*

Next, we investigate the relation between partisan discord and ICMWs. Internal controls are relevant to our setting for two reasons. First, prior studies find that the characteristics of a firm's headquarters location, such as labor quality, employee IT capability, and employee-friendly laws can affect the firm's internal control quality (Call et al. 2017; Abernathy et al. 2023; Koch and Liang 2024). This stream of literature argues that rank-and-file employees provide important inputs into the financial reporting process and, hence, can influence firms' internal controls. Because partisan discord could lower employee morale, the quality of their inputs to financial reporting could be impaired, and the incidence of ICMWs would increase. Second, prior literature argues that managers rely on firms' financial reporting systems to inform their operating decisions, and hence ICMW is negatively associated with firm performance (e.g., Cheng et al. 2013; Cheng et al. 2018; and Feng et al. 2009). Therefore, ICMW could serve as a channel through which partisan discord affects performance.

Table 10 presents the results. For robustness, we examine four indicators: an indicator for any ICMW, an indicator for a Sarbanes-Oxley Act (SOX) Section 302 ICMW, an indicator for a SOX Section 404 ICMW, and an indicator for an employee-related ICMW.¹⁹ Following Guo et al. (2016), we classify employee-related ICMW based on Audit Analytics codes 21 or 44 for Section 404 ICMW and codes 51 or 84 for Section 302 ICMW. These codes indicate issues in personnel ethics or compliance and accounting personnel resources and competency. Because ICMW is a rare event for S&P 1500 firms, we again report the results from linear probability models. The results are consistent and sometimes slightly stronger if we estimate logit models instead. We also include additional control variables that are commonly used in the ICMW literature including a

¹⁹ While Section 302 ICMW and Section 404 ICMW are highly correlated, a key difference is that Section 302 ICMWs are quarterly, can be remediated before the end of the year, and hence do not always lead to Section 404 ICMWs.

Big 4 auditor indicator, lagged ROA, and a lagged loss indicator. We find that the coefficient on partisan discord is positive and significant for all columns, supporting our expectation. In particular, statistical significance is highest for ICMWs that relate to employees.

5.9 *Two and Three Years After Election*

Our main analysis focuses on the presidential election years and the years right after the elections. In this untabulated analysis, we further investigate the association between partisan discord and performance for two and three years after the presidential elections. For all performance measures, we fail to find a significant association, consistent with stakeholders paying less attention to partisan discord at other times.

5.10 *The Symmetric Effect of Partisan Discord*

Our last additional analysis explores whether there is an asymmetry in the importance of partisan discord between Democratic firms located in Republican counties and Republican firms located in Democratic counties. In untabulated tests, we decompose *Party_Discord* into two mutually exclusive components: *Party_Discord_D* and *Party_Discord_R*. *Party_Discord_D* (*Party_Discord_R*) equals *Party_Discord* if a firm's partisan positioning is greater (less) than its neighborhoods' partisan preference and equals 0 otherwise. Thus, *Party_Discord_D* (*Party_Discord_R*) is positive only if a firm is more Democratic-leaning (Republican-leaning) than its neighborhood. We add both *Party_Discord_D* and *Party_Discord_R* to regression (4) and find that their coefficients are negative for all performance measures, but the difference in the coefficients is statistically insignificant. Hence, the effect of partisan discord is symmetric for the two parties.

6. **Conclusion**

This study examines the relation between partisan discord and firm performance. Partisan

discord arises when a firm's partisan positioning deviates from the political ideology of its local community. Because the local community comprises a firm's important labor supply, customer base, and other stakeholders such as local suppliers and lenders, we argue that partisan discord reduces their trust in the firm and discourages their cooperation, harming firm performance. Our empirical results suggest partisan discord is negatively associated with accounting profitability, stock returns, and firm growth, which is consistent with our prediction. Our results are robust to entropy balancing, an instrumental variable approach, and an alternative partisan discord measure. In a cross-sectional analysis, we find that the negative association is stronger when a firm relies more on intra-firm communication, consistent with trust and collaboration being especially important for such firms. We also find that the negative association is more pronounced when a firm faces higher political risks, suggesting such risk draws local stakeholders' attention to the firm's political activities and increases their sensitivity to partisan discord. Lastly, we show that partisan discord leads to lower best-employer rankings and more ICMWs.

We contribute to the emerging literature on the impact of political polarization on firms. Our findings also suggest that rank-and-file workers and their political ideology could have an economically meaningful impact on firm-level outcomes. Thus, while prior studies often focus on how firms' political involvement could influence policymaking and benefit firms, we highlight that it is also critical to consider the local political ideology when deciding firms' political contributions and positioning.

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Appendix. Variable Definitions

Variable	Definition
Dependent Variables	
<i>ROA</i>	Earnings before extraordinary items (Compustat IB) scaled by beginning-of-year total assets (Compustat AT).
<i>Operating_Income</i>	Operating income after depreciation (Compustat OIADP) scaled by beginning-of-year total assets (Compustat AT).
<i>Return</i>	Annual buy-and-hold stock return (CRSP).
<i>Abnormal_Return</i>	Annual buy-and-hold stock return minus the average return of firms in the same market value and book-to-market quintiles (Compustat and CRSP). Quintiles are created based on all firm-years in Compustat and CRSP databases.
<i>Sales_Growth</i>	Sales revenue (Compustat REVT) divided by lagged sales revenue and then minus 1.
<i>Employee_Growth</i>	Number of employees (Compustat EMP) divided by lagged number of employees and then minus 1.
<i>Fortune100</i>	An indicator that equals 1 if a firm is recognized as one of the 100 Best Companies to Work For by Fortune Magazine, and 0 otherwise.
<i>Fortune_Rank</i>	A firm's ranking in the 100 Best Companies to Work For by Fortune Magazine.
<i>Glassdoor50</i>	An indicator that equals 1 if a firm is recognized as one of the 50 Best Places to Work by Glassdoor.com, and 0 otherwise.
<i>Glassdoor_Rank</i>	A firm's ranking in the 50 Best Places to Work by Glassdoor.com.
<i>ICMW</i>	An indicator that equals 1 if a firm has at least one SOX 404 or SOX 302 internal control material weakness over financial reporting, and 0 otherwise (Audit Analytics).
<i>ICMW302</i>	An indicator that equals 1 if a firm has at least one SOX 302 internal control material weakness over financial reporting, and 0 otherwise (Audit Analytics).
<i>ICMW404</i>	An indicator that equals 1 if a firm has at least one SOX 404 internal control material weakness over financial reporting, and 0 otherwise (Audit Analytics).
<i>EmpMW</i>	An indicator for employee-related ICMW, which equals 1 if codes 21 or 44 are used to label SOX 404 ICMW or codes 51 or 84 are used to label SOX 302 ICMW, and 0 otherwise (Audit Analytics).
Independent Variables	
<i>Party_Discord</i>	The absolute value of the difference between a firm's partisan positioning and its headquarters' county's partisan locale. A firm's partisan positioning is defined as the percentage of a firm's political contributions to Democratic recipients minus the percentage of contributions to Republican recipients (FEC PAC database). A county's partisan locale is defined as the percentage of votes for the Democratic candidate in the most recent presidential election minus the percentage for the Republican candidate (MIT election lab).
<i>President_Discord</i>	The absolute value of the difference between a firm's partisan positioning and the President's party. A firm's partisan positioning is defined as the percentage of a

firm's political contributions to Democratic recipients minus the percentage of contributions to Republican recipients (FEC PAC database). A President's party is coded as 1 for the Democratic party and -1 for the Republican party.

<i>Size</i>	For stock return regressions, defined as the log of market value of equity computed based on shares outstanding (Compustat CSHO) and end-of-year stock price (Compustat PRCC_F), measured at the beginning of year. For all other regressions, defined as the log of total assets (Compustat AT), measured at the beginning of year.
<i>BTM</i>	Book value of equity (Compustat CEQ) scaled by market value of equity computed based on shares outstanding (Compustat CSHO) and end-of-year stock price (Compustat PRCC_F), measured at the beginning of year.
<i>Leverage</i>	Sum of short-term debt (Compustat DLC) and long-term debt (Compustat DLTT) scaled by total assets (Compustat AT), measured at the beginning of year.
<i>Receivable</i>	Receivables (Compustat RECT) scaled by total assets (Compustat AT), measured at the beginning of year.
<i>Inventory</i>	Inventories (Compustat INVT) scaled by total assets (Compustat AT), measured at the beginning of year.
<i>PPE</i>	Gross property, plant, and equipment (Compustat PPEGT) scaled by total assets (Compustat AT), measured at the beginning of year.
<i>R&D</i>	Research and development expenditure (Compustat XRD) scaled by total assets (Compustat AT), measured at the beginning of year.
<i>Restructure</i>	An indicator that equals 1 if restructuring (Compustat RCP) is non-zero and non-missing, and 0 otherwise.
<i>Acquisition</i>	An indicator that equals 1 if acquisition (Compustat AQC) is non-zero and non-missing, and 0 otherwise.
<i>Male_CEO</i>	An indicator that equals 1 if the CEO is a male (Execucomp GENDER), and 0 otherwise.
<i>CEO_Age</i>	CEO age (Execucomp AGE).
<i>CEO_Turnover</i>	An indicator that equals 1 if a CEO turnover happens, and 0 otherwise (Execucomp).
<i>CEO_Duality</i>	An indicator that equals 1 if a CEO is also the board chair (ISS EMPLOYMENT_CEO and EMPLOYMENT_CHAIRMAN), and 0 otherwise.
<i>Board_Size</i>	Number of board members (ISS).
<i>Board_Independence</i>	Number of independent board members (ISS CLASSIFICATION = "I") divided by number of board members (ISS).
<i>R&DPerEmp</i>	Research and development expenditure (Compustat XRD) scaled by number of employees (Compustat EMP), measured right before the most recent election (e.g., data from 1999 is used for both 2000 and 2001).
<i>AssetsPerEmp</i>	Total assets (Compustat AT) scaled by number of employees (Compustat EMP) and then divided by 1000, measured right before the most recent election (e.g., data from 1999 is used for both 2000 and 2001).

<i>Political_Risk</i>	Firm-level political risk created by Hassan et al. (2019); the maximum value is used if there are multiple values from different quarters (Dr. Tarek Hassan's website: https://www.tarekhassan.net/).
<i>Loss</i>	An indicator that equals 1 if earnings before extraordinary items (Compustat IB) is negative, and 0 otherwise.
<i>Big4</i>	An indicator that equals 1 if auditor code (Compustat AU) is between 1 and 8, and 0 otherwise.
<i>Risk factor loadings</i>	Factor loadings from regressing monthly excess return (i.e., CRSP stock return minus the risk-free rate) on the Fama-French three factors and the momentum factor. We perform a rolling regression for each firm using data from the previous five years while requiring at least 12 months of valid return data.
<i>Idiosyncratic risk</i>	The standard deviation of the residuals from the regression that generates the risk factor loadings.

TABLE 1
Descriptive Statistics

	N	Mean	Std. Dev.	P25	P50	P75
<i>Party_Discord</i>	3990	0.560	0.353	0.277	0.526	0.797
Dependent Variables						
<i>ROA</i>	3990	0.047	0.081	0.017	0.043	0.084
<i>Operating_Income</i>	3990	0.095	0.084	0.049	0.084	0.135
<i>Return</i>	3719	0.166	0.412	-0.079	0.137	0.341
<i>Abnormal_Return</i>	3719	0.026	0.382	-0.189	-0.015	0.185
<i>Sales_Growth</i>	3990	0.069	0.226	-0.029	0.047	0.133
<i>Employee_Growth</i>	3962	0.030	0.181	-0.038	0.007	0.068
<i>Fortune100</i>	3824	0.038	0.190	0.000	0.000	0.000
<i>Glassdoor50</i>	1890	0.023	0.151	0.000	0.000	0.000
<i>ICMW</i>	3567	0.056	0.229	0.000	0.000	0.000
<i>ICMW302</i>	3567	0.050	0.219	0.000	0.000	0.000
<i>ICMW404</i>	3567	0.034	0.182	0.000	0.000	0.000
<i>EmpMW</i>	3567	0.038	0.192	0.000	0.000	0.000
Control Variables						
<i>President_Discord</i>	3990	0.887	0.534	0.506	0.864	1.202
<i>Size (assets)</i>	3990	8.967	1.623	7.802	8.976	10.071
<i>Size (market value)</i>	3719	8.729	1.655	7.535	8.702	9.862
<i>BTM</i>	3990	0.461	0.574	0.242	0.420	0.649
<i>Leverage</i>	3990	0.300	0.187	0.166	0.290	0.406
<i>Receivable</i>	3990	0.127	0.119	0.048	0.094	0.163
<i>Inventory</i>	3990	0.076	0.103	0.006	0.031	0.111
<i>PPE</i>	3990	0.597	0.419	0.229	0.541	0.941
<i>R&D</i>	3990	0.016	0.035	0.000	0.000	0.016
<i>Restructure</i>	3990	0.424	0.494	0.000	0.000	1.000
<i>Acquisition</i>	3990	0.486	0.500	0.000	0.000	1.000
<i>Male_CEO</i>	3990	0.968	0.175	1.000	1.000	1.000
<i>CEO_Age</i>	3990	4.030	0.109	3.970	4.043	4.094
<i>CEO_Turnover</i>	3990	0.074	0.262	0.000	0.000	0.000
<i>CEO_Duality</i>	3212	0.555	0.497	0.000	1.000	1.000
<i>Board_Size</i>	3212	10.501	2.326	9.000	10.000	12.000
<i>Board_Independence</i>	3212	0.794	0.127	0.727	0.818	0.900
<i>R&DPerEmp</i>	3960	11.326	32.991	0.000	0.000	5.815
<i>AssetsPerEmp</i>	3960	3.923	6.424	0.647	1.818	4.236
<i>Political_Risk</i>	3360	3.143	3.969	1.071	1.989	3.772
<i>Lag_ROA</i>	3567	0.044	0.091	0.017	0.041	0.078
<i>Lag_Loss</i>	3567	0.139	0.346	0.000	0.000	0.000
<i>Big4</i>	3567	0.976	0.153	1.000	1.000	1.000

This table summarizes the descriptive statistics for the variables of our sample. All variables are defined in the Appendix. All continuous variables are winsorized at the 1st and 99th percentiles.

TABLE 2
Relation between Partisan Discord and Firm Characteristics

	I Correlation with <i>Party_Discord</i>	II Correlation <i>p</i> -value	III Mean of High <i>Party_Discord</i> Group	IV Mean of Low <i>Party_Discord</i> Group	V High vs. Low Group Difference	VI High vs. Low Group Difference <i>p</i> -value
<i>President_Discord</i>	-0.052***	0.001	0.864	0.910	-0.046***	0.006
<i>Size (assets)</i>	-0.030*	0.056	8.982	8.953	0.029	0.549
<i>Size (market value)</i>	-0.035**	0.034	8.720	8.738	-0.018	0.744
<i>BTM</i>	0.045***	0.004	0.479	0.444	0.035*	0.058
<i>Leverage</i>	0.003	0.843	0.304	0.296	0.008	0.201
<i>Receivable</i>	0.047***	0.003	0.131	0.122	0.009**	0.022
<i>Inventory</i>	0.084***	<0.001	0.082	0.070	0.012***	<0.001
<i>PPE</i>	0.043***	0.007	0.612	0.581	0.031**	0.021
<i>R&D</i>	-0.058***	<0.001	0.014	0.018	-0.004***	0.001
<i>Restructure</i>	-0.013	0.430	0.429	0.419	0.010	0.528
<i>Acquisition</i>	-0.039**	0.013	0.467	0.507	-0.043***	0.007
<i>Male_CEO</i>	-0.014	0.376	0.964	0.973	-0.009	0.114
<i>CEO_Age</i>	0.043***	0.007	4.034	4.027	0.007**	0.031
<i>CEO_Turnover</i>	0.018	0.263	0.077	0.071	0.006	0.469
<i>CEO_Duality</i>	-0.007	0.671	0.565	0.545	0.020	0.214
<i>Board_Size</i>	0.010	0.556	10.626	10.377	0.249***	0.002
<i>Board_Independence</i>	-0.001	0.941	0.794	0.794	-0.001	0.877

This table shows the relation between partisan discord and firm characteristics, with correlation in column I, *p*-value of the correlation in column II, mean of high partisan discord group (defined as *Party_Discord* above median) in column III, mean of low partisan discord group (defined as *Party_Discord* below median) in column IV, difference in high- and low-group means in column V, and *p*-value of the difference in means in column VI. All variables are defined in the Appendix. All continuous variables are winsorized at the 1st and 99th percentiles. *, **, and *** indicate $p < 0.10$, $p < 0.05$, and $p < 0.01$, respectively, for a two-tailed test.

TABLE 3
Partisan Discord and Performance

Dependent Variable:	I <i>ROA</i>	II <i>Operating Income</i>	III <i>Return</i>	IV <i>Abnormal Return</i>	V <i>Sales Growth</i>	VI <i>Employee Growth</i>
<i>Party_Discord</i>	-0.0122*** (0.0045)	-0.0098** (0.0041)	-0.0671** (0.0274)	-0.0671** (0.0274)	-0.0334*** (0.0125)	-0.0222** (0.0110)
<i>President_Discord</i>	0.0014 (0.0027)	0.0051* (0.0027)	0.0028 (0.0168)	0.0043 (0.0167)	0.0011 (0.0079)	0.0042 (0.0066)
<i>Size</i>	-0.0252*** (0.0047)	-0.0310*** (0.0043)	-0.1689*** (0.0238)	-0.1734*** (0.0239)	-0.0707*** (0.0149)	-0.0883*** (0.0144)
<i>BTM</i>	-0.0312*** (0.0055)	-0.0251*** (0.0040)	-0.0762** (0.0321)	-0.0759** (0.0318)	-0.0323*** (0.0100)	-0.0259*** (0.0071)
<i>Leverage</i>	-0.0412** (0.0177)	-0.0358** (0.0154)	-0.0205 (0.1043)	-0.0209 (0.1051)	-0.0198 (0.0442)	-0.0475 (0.0390)
<i>Receivable</i>	0.1036*** (0.0329)	0.1300*** (0.0345)	0.4624** (0.1962)	0.4899** (0.1956)	-0.1427 (0.0929)	-0.0639 (0.0865)
<i>Inventory</i>	0.0901 (0.0643)	0.0335 (0.0596)	0.8073** (0.3219)	0.8165** (0.3221)	-0.1212 (0.1533)	-0.2704** (0.1270)
<i>PPE</i>	-0.0150 (0.0123)	-0.0305** (0.0132)	-0.1077 (0.0748)	-0.1127 (0.0742)	-0.2062*** (0.0379)	-0.1056*** (0.0323)
<i>R&D</i>	0.1122 (0.2030)	0.1801 (0.2257)	-0.0890 (0.7557)	-0.1489 (0.7663)	-0.0667 (0.4115)	-0.2305 (0.3594)
<i>Restructure</i>	-0.0234*** (0.0034)	-0.0224*** (0.0031)	-0.0458** (0.0183)	-0.0437** (0.0182)	-0.0461*** (0.0099)	-0.0425*** (0.0068)
<i>Acquisition</i>	0.0070** (0.0031)	0.0113*** (0.0030)	-0.0197 (0.0188)	-0.0209 (0.0187)	0.0723*** (0.0112)	0.0923*** (0.0087)
<i>Male_CEO</i>	-0.0021 (0.0088)	0.0012 (0.0091)	-0.0444 (0.0527)	-0.0430 (0.0531)	-0.0200 (0.0188)	-0.0013 (0.0172)
<i>CEO_Age</i>	0.0164 (0.0177)	0.0372** (0.0156)	0.0593 (0.0818)	0.0538 (0.0823)	-0.0273 (0.0516)	-0.0180 (0.0397)
<i>CEO_Turnover</i>	-0.0114** (0.0045)	-0.0028 (0.0036)	-0.0392 (0.0254)	-0.0437* (0.0255)	-0.0333*** (0.0119)	-0.0276*** (0.0099)
<i>CEO_Duality</i>	-0.0009 (0.0036)	0.0012 (0.0036)	0.0105 (0.0211)	0.0121 (0.0212)	0.0223** (0.0110)	0.0114 (0.0093)
<i>Board_Size</i>	0.0023*** (0.0009)	0.0023** (0.0009)	-0.0009 (0.0057)	-0.0001 (0.0057)	0.0044 (0.0028)	0.0030 (0.0024)
<i>Board_Independence</i>	0.0720*** (0.0203)	0.0491*** (0.0180)	0.1177 (0.1050)	0.1299 (0.1052)	-0.0043 (0.0611)	-0.0027 (0.0427)
<i>Idiosyncratic risk and risk factor loadings</i>	No	No	Yes	Yes	No	No

<i>Firm fixed effects</i>	Yes	Yes	Yes	Yes	Yes	Yes
<i>Year fixed effects</i>	Yes	Yes	Yes	Yes	Yes	Yes
<i>Board data missing indicator</i>	Yes	Yes	Yes	Yes	Yes	Yes
<i>Observations</i>	3,990	3,990	3,719	3,719	3,990	3,962
<i>R²</i>	0.5606	0.6774	0.3491	0.2478	0.3967	0.3634

This table presents regression results of performance on partisan discord and control variables, with the dependent variable being ROA in column I, operating income in column II, buy-and-hold annual return in column III, abnormal return in column IV, sales growth in column V, and employee growth in column VI. All variables are defined in the Appendix. All continuous variables are winsorized at the 1st and 99th percentiles. *, **, and *** indicate $p < 0.10$, $p < 0.05$, and $p < 0.01$, respectively, for a two-tailed test; standard errors are clustered at the firm level and reported in parentheses.

TABLE 4
Evidence from Entropy Balancing

Dependent Variable:	I <i>ROA</i>	II <i>Operating Income</i>	III <i>Return</i>	IV <i>Abnormal Return</i>	V <i>Sales Growth</i>	VI <i>Employee Growth</i>
<i>Party_Discord</i>	-0.0126*** (0.0046)	-0.0103** (0.0041)	-0.0745*** (0.0277)	-0.0750*** (0.0276)	-0.0337*** (0.0124)	-0.0221** (0.0107)
<i>Control variables</i>	Yes	Yes	Yes	Yes	Yes	Yes
<i>Idiosyncratic risk and risk factor loadings</i>	No	No	Yes	Yes	No	No
<i>Firm fixed effects</i>	Yes	Yes	Yes	Yes	Yes	Yes
<i>Year fixed effects</i>	Yes	Yes	Yes	Yes	Yes	Yes
<i>Board data missing indicator</i>	Yes	Yes	Yes	Yes	Yes	Yes
Balancing Variables:						
<i>Control variables</i>	Yes	Yes	Yes	Yes	Yes	Yes
<i>Idiosyncratic risk and risk factor loadings</i>	No	No	Yes	Yes	No	No
<i>Board data missing indicator</i>	Yes	Yes	Yes	Yes	Yes	Yes
<i>Observations</i>	3,990	3,990	3,719	3,719	3,990	3,962
<i>R²</i>	0.5597	0.6787	0.4018	0.3707	0.3498	0.2425

This table presents entropy balancing results of performance measures on partisan discord and control variables, with the dependent variable being ROA in column I, operating income in column II, buy-and-hold annual return in column III, abnormal return in column IV, sales growth in column V, and employee growth in column VI. All variables are defined in the Appendix. All continuous variables are winsorized at the 1st and 99th percentiles. *, **, and *** indicate $p < 0.10$, $p < 0.05$, and $p < 0.01$, respectively, for a two-tailed test; standard errors are clustered at the firm level and reported in parentheses.

TABLE 5
Evidence from the Instrumental Variable Approach

Dependent Variable:	I <i>ROA</i>	II <i>Operating Income</i>	III <i>Return</i>	IV <i>Abnormal Return</i>	V <i>Sales Growth</i>	VI <i>Employee Growth</i>
<i>Party_Discord</i>	-0.0665* (0.0349)	-0.0637** (0.0314)	-0.3644** (0.1859)	-0.3537* (0.1881)	-0.2275** (0.1095)	-0.1806** (0.0838)
<i>Control variables</i>	Yes	Yes	Yes	Yes	Yes	Yes
<i>Idiosyncratic risk and risk factor loadings</i>	No	No	Yes	Yes	No	No
<i>Firm fixed effects</i>	Yes	Yes	Yes	Yes	Yes	Yes
<i>Year fixed effects</i>	Yes	Yes	Yes	Yes	Yes	Yes
<i>Board data missing indicator</i>	Yes	Yes	Yes	Yes	Yes	Yes
First Stage Results:						
<i>Party_Discord_IV</i>	0.2331*** (0.0372)	0.2331*** (0.0372)	0.2081*** (0.0324)	0.2081*** (0.0324)	0.2331*** (0.0372)	0.2346*** (0.0373)
<i>Partial F-stat</i>	71.61	71.61	68.35	68.35	71.61	72.42
<i>Observations</i>	3,856	3,856	3,589	3,589	3,856	3,829

This table presents two-stage least squares regression results of performance measures on partisan discord, an instrumental variable, and control variables, with the dependent variable being ROA in column I, operating income in column II, buy-and-hold annual return in column III, abnormal return in column IV, sales growth in column V, and employee growth in column VI. All variables are defined in the Appendix. All continuous variables are winsorized at the 1st and 99th percentiles. *, **, and *** indicate $p < 0.10$, $p < 0.05$, and $p < 0.01$, respectively, for a two-tailed test; standard errors are clustered at the firm level and reported in parentheses.

TABLE 6
Alternative Partisan Discord Measure

Dependent Variable:	I <i>ROA</i>	II <i>Operating Income</i>	III <i>Return</i>	IV <i>Abnormal Return</i>	V <i>Sales Growth</i>	VI <i>Employee Growth</i>
<i>Alt_Party_Discord</i>	-0.0012*** (0.0004)	-0.0008** (0.0004)	-0.0060** (0.0027)	-0.0060** (0.0026)	-0.0031** (0.0013)	-0.0016* (0.0010)
<i>Control variables</i>	Yes	Yes	Yes	Yes	Yes	Yes
<i>Idiosyncratic risk and risk factor loadings</i>	No	No	Yes	Yes	No	No
<i>Firm fixed effects</i>	Yes	Yes	Yes	Yes	Yes	Yes
<i>Year fixed effects</i>	Yes	Yes	Yes	Yes	Yes	Yes
<i>Board data missing indicator</i>	Yes	Yes	Yes	Yes	Yes	Yes
<i>Observations</i>	3,990	3,990	3,719	3,719	3,990	3,962
<i>R²</i>	0.5605	0.6771	0.3488	0.2474	0.3965	0.3629

This table presents regression results of performance measures on an alternative partisan discord measure and control variables, with the dependent variable being ROA in column I, operating income in column II, buy-and-hold annual return in column III, abnormal return in column IV, sales growth in column V, and employee growth in column VI. All variables are defined in the Appendix. All continuous variables are winsorized at the 1st and 99th percentiles. *, **, and *** indicate $p < 0.10$, $p < 0.05$, and $p < 0.01$, respectively, for a two-tailed test; standard errors are clustered at the firm level and reported in parentheses.

TABLE 7
The Moderating Effects of the Importance of Intra-Firm Communication

Panel A: The Moderating Effect of Knowledge Intensity

Dependent Variable:	I	II	III	IV	V	VI
	<i>ROA</i>	<i>Operating Income</i>	<i>Return</i>	<i>Abnormal Return</i>	<i>Sales Growth</i>	<i>Employee Growth</i>
<i>Party_Discord</i>	-0.0091** (0.0046)	-0.0070 (0.0043)	-0.0383 (0.0290)	-0.0375 (0.0289)	-0.0352*** (0.0134)	-0.0210* (0.0117)
<i>Party_Discord</i> × <i>R&DPerEmp</i>	-0.0004* (0.0002)	-0.0003*** (0.0001)	-0.0025*** (0.0009)	-0.0026*** (0.0009)	0.0005 (0.0005)	0.0002 (0.0004)
<i>R&DPerEmp</i>	-0.0000 (0.0003)	-0.0000 (0.0002)	0.0025** (0.0010)	0.0026** (0.0010)	0.0014** (0.0006)	0.0013*** (0.0005)
<i>Control variables</i>	Yes	Yes	Yes	Yes	Yes	Yes
<i>Idiosyncratic risk and risk factor loadings</i>	No	No	Yes	Yes	No	No
<i>Firm fixed effects</i>	Yes	Yes	Yes	Yes	Yes	Yes
<i>Year fixed effects</i>	Yes	Yes	Yes	Yes	Yes	Yes
<i>Board data missing indicator</i>	Yes	Yes	Yes	Yes	Yes	Yes
<i>Observations</i>	3,960	3,960	3,699	3,699	3,960	3,953
<i>R</i> ²	0.5621	0.6773	0.3523	0.2522	0.3995	0.3662

Panel B: The Moderating Effect of Labor Intensity

Dependent Variable:	I	II	III	IV	V	VI
	<i>ROA</i>	<i>Operating Income</i>	<i>Return</i>	<i>Abnormal Return</i>	<i>Sales Growth</i>	<i>Employee Growth</i>
<i>Party_Discord</i>	-0.0084 (0.0052)	-0.0069 (0.0047)	-0.0445 (0.0314)	-0.0457 (0.0315)	-0.0379*** (0.0138)	-0.0094 (0.0129)
<i>Party_Discord</i> × <i>AssetsPerEmp</i>	-0.0034** (0.0017)	-0.0026* (0.0015)	-0.0203* (0.0110)	-0.0190* (0.0114)	0.0030 (0.0056)	-0.0091** (0.0046)
<i>AssetsPerEmp</i>	-0.0019 (0.0019)	-0.0051*** (0.0018)	-0.0132 (0.0114)	-0.0138 (0.0114)	-0.0174** (0.0077)	0.0171*** (0.0057)
<i>Control variables</i>	Yes	Yes	Yes	Yes	Yes	Yes
<i>Idiosyncratic risk and risk factor loadings</i>	No	No	Yes	Yes	No	No
<i>Firm fixed effects</i>	Yes	Yes	Yes	Yes	Yes	Yes
<i>Year fixed effects</i>	Yes	Yes	Yes	Yes	Yes	Yes
<i>Board data missing indicator</i>	Yes	Yes	Yes	Yes	Yes	Yes
<i>Observations</i>	3,960	3,960	3,699	3,699	3,960	3,953
<i>R</i> ²	0.5629	0.6807	0.3526	0.2523	0.3997	0.3666

This table presents regression results of performance measures on partisan discord, the importance of intra-firm communication, their interaction, and control variables, with the dependent variable being ROA in column I, operating income in column II, buy-and-hold annual return in column III, abnormal return in column IV, sales growth in column V, and employee growth in column VI. All variables are defined in the Appendix. All continuous variables are winsorized at the 1st and 99th percentiles. *, **, and *** indicate $p < 0.10$, $p < 0.05$, and $p < 0.01$, respectively, for a two-tailed test; standard errors are clustered at the firm level and reported in parentheses.

TABLE 8
The Moderating Effects of Firm-Level Political Risk

Dependent Variable:	I	II	III	IV	V	VI
	<i>ROA</i>	<i>Operating Income</i>	<i>Return</i>	<i>Abnormal Return</i>	<i>Sales Growth</i>	<i>Employee Growth</i>
<i>Party_Discord</i>	-0.0093* (0.0055)	-0.0101** (0.0049)	-0.0094 (0.0330)	-0.0081 (0.0332)	-0.0234 (0.0150)	-0.0065 (0.0126)
<i>Party_Discord</i> × <i>Political_Risk</i>	-0.0013* (0.0007)	-0.0013** (0.0007)	-0.0182*** (0.0065)	-0.0179*** (0.0066)	-0.0021 (0.0025)	-0.0039** (0.0019)
<i>Political_Risk</i>	0.0007** (0.0004)	0.0010** (0.0004)	0.0054 (0.0037)	0.0053 (0.0038)	0.0022 (0.0016)	0.0024** (0.0012)
<i>Control variables</i>	Yes	Yes	Yes	Yes	Yes	Yes
<i>Idiosyncratic risk and risk factor loadings</i>	No	No	Yes	Yes	No	No
<i>Firm fixed effects</i>	Yes	Yes	Yes	Yes	Yes	Yes
<i>Year fixed effects</i>	Yes	Yes	Yes	Yes	Yes	Yes
<i>Board data missing indicator</i>	Yes	Yes	Yes	Yes	Yes	Yes
<i>Observations</i>	3,360	3,360	3,168	3,168	3,360	3,347
<i>R</i> ²	0.5898	0.6972	0.4049	0.2742	0.3830	0.3579

This table presents regression results of performance measures on partisan discord, firm-level political risk, their interaction, and control variables, with the dependent variable being ROA in column I, operating income in column II, buy-and-hold annual return in column III, abnormal return in column IV, sales growth in column V, and employee growth in column VI. All variables are defined in the Appendix. All continuous variables are winsorized at the 1st and 99th percentiles. *, **, and *** indicate $p < 0.10$, $p < 0.05$, and $p < 0.01$, respectively, for a two-tailed test; standard errors are clustered at the firm level and reported in parentheses.

TABLE 9
Partisan Discord and Best Employer Ranking

Dependent Variable:	I <i>Fortune100</i>	II <i>Fortune_Rank</i>	III <i>Glassdoor50</i>	IV <i>Glassdoor_Rank</i>
<i>Party_Discord</i>	-0.0054 (0.0072)	22.9877** (11.3104)	-0.0157 (0.0105)	22.7293** (11.2219)
<i>President_Discord</i>	0.0024 (0.0042)	5.8535 (7.0739)	-0.0077 (0.0063)	-5.6247 (7.5949)
<i>Size</i>	0.0034 (0.0099)	-19.6480*** (4.4883)	0.0066 (0.0101)	-10.7944*** (3.3942)
<i>BTM</i>	-0.0072*** (0.0025)	20.8061** (9.0063)	-0.0123** (0.0050)	33.1891*** (10.5948)
<i>Leverage</i>	-0.0850** (0.0389)	153.3088*** (30.4203)	-0.0556 (0.0526)	116.5789*** (29.3856)
<i>Receivable</i>	-0.0288 (0.0610)	-43.5561 (38.5716)	0.0292 (0.1841)	21.7935 (41.0411)
<i>Inventory</i>	-0.0658 (0.0997)	-33.9641 (58.2697)	-0.1146 (0.2268)	2.8799 (42.6974)
<i>PPE</i>	0.0068 (0.0279)	1.9863 (14.4948)	0.0133 (0.0323)	0.3701 (11.9220)
<i>R&D</i>	0.3762 (0.8013)	-437.4383*** (116.4626)	0.4820 (1.4114)	-242.4319*** (85.8074)
<i>Restructure</i>	-0.0165** (0.0082)	17.7569*** (6.5637)	0.0026 (0.0129)	1.2469 (5.6929)
<i>Acquisition</i>	0.0037 (0.0069)	-1.9777 (6.7917)	-0.0046 (0.0101)	-0.0528 (6.1717)
<i>Male_CEO</i>	-0.0003 (0.0100)	-284.4491 (11,651.0220)	0.0016 (0.0051)	-139.7347 (7,748.8244)
<i>CEO_Age</i>	0.0538 (0.0354)	-56.0999* (31.8996)	-0.0337 (0.0416)	52.4020 (35.2060)
<i>CEO_Turnover</i>	0.0204** (0.0101)	-16.4587* (9.4364)	0.0046 (0.0135)	-7.3825 (9.0682)
<i>CEO_Duality</i>	-0.0087 (0.0080)	-8.6659 (8.0678)	0.0139 (0.0100)	-9.6503 (7.1853)
<i>Board_Size</i>	-0.0000 (0.0033)	-0.8437 (1.5920)	0.0014 (0.0033)	-1.1159 (1.5557)
<i>Board_Independence</i>	-0.0141 (0.0355)	99.4610*** (31.4094)	0.0835 (0.0540)	-42.0755 (46.5067)
<i>Firm effects</i>	Fixed	Random	Fixed	Random
<i>Year fixed effects</i>	Yes	Yes	Yes	Yes
<i>Board data missing indicator</i>	Yes	Yes	Yes	Yes
<i>Observations</i>	3,824	3,824	1,890	1,890
<i>R²</i>	0.6403	N/A	0.5382	N/A

This table presents regression results of a firm's best employer ranking on partisan discord and control variables, with the dependent variable being an indicator of being on the Fortune 100 Best Companies to Work For in column I, the rank in Fortune 100 Best Companies to Work For in column II, an indicator of being on the top 50 Glassdoor Best Places to Work in column III, and the rank in Glassdoor Best Places to Work in column IV. We estimate linear probability models for columns I and III, and tobit models for columns II and IV. All variables are defined in the Appendix. All continuous variables are winsorized at the 1st and 99th percentiles. *, **, and *** indicate $p < 0.10$, $p < 0.05$, and $p < 0.01$, respectively, for a two-tailed test; standard errors are clustered at the firm level for linear regressions and reported in parentheses.

TABLE 10
Partisan Discord and Internal Control Material Weakness

Dependent Variable:	I <i>ICMW</i>	II <i>ICMW302</i>	III <i>ICMW404</i>	IV <i>EmpMW</i>
<i>Party_Discord</i>	0.0341** (0.0145)	0.0317** (0.0139)	0.0196* (0.0119)	0.0354*** (0.0123)
<i>President_Discord</i>	-0.0095 (0.0086)	-0.0057 (0.0082)	0.0007 (0.0070)	-0.0069 (0.0073)
<i>Size</i>	0.0639*** (0.0114)	0.0553*** (0.0109)	0.0468*** (0.0093)	0.0479*** (0.0096)
<i>BTM</i>	-0.0026 (0.0093)	-0.0021 (0.0089)	-0.0059 (0.0076)	0.0027 (0.0079)
<i>Leverage</i>	0.0340 (0.0412)	0.0242 (0.0396)	0.0146 (0.0338)	0.0333 (0.0350)
<i>Receivable</i>	0.0883 (0.0995)	0.0356 (0.0955)	0.0832 (0.0814)	-0.0394 (0.0844)
<i>Inventory</i>	0.0888 (0.1588)	0.0416 (0.1525)	0.0706 (0.1300)	-0.0072 (0.1348)
<i>PPE</i>	-0.0212 (0.0342)	-0.0243 (0.0328)	0.0061 (0.0280)	-0.0333 (0.0290)
<i>R&D</i>	0.1769 (0.3965)	0.1660 (0.3808)	0.1432 (0.3247)	0.1154 (0.3366)
<i>Restructure</i>	0.0224** (0.0104)	0.0202** (0.0100)	0.0088 (0.0085)	0.0153* (0.0088)
<i>Acquisition</i>	-0.0177* (0.0099)	-0.0139 (0.0095)	-0.0102 (0.0081)	-0.0113 (0.0084)
<i>Male_CEO</i>	-0.0252 (0.0258)	-0.0215 (0.0248)	-0.0282 (0.0211)	-0.0151 (0.0219)
<i>CEO_Age</i>	0.0018 (0.0482)	0.0316 (0.0463)	-0.0224 (0.0395)	0.0169 (0.0409)
<i>CEO_Turnover</i>	0.0002 (0.0146)	0.0018 (0.0140)	-0.0154 (0.0120)	-0.0016 (0.0124)
<i>CEO_Duality</i>	-0.0057 (0.0120)	-0.0065 (0.0115)	0.0053 (0.0098)	0.0036 (0.0102)
<i>Board_Size</i>	-0.0003 (0.0031)	-0.0015 (0.0029)	-0.0008 (0.0025)	-0.0007 (0.0026)
<i>Board_Independence</i>	-0.0931 (0.0599)	-0.0892 (0.0575)	-0.0653 (0.0491)	-0.0775 (0.0509)
<i>Lag_ROA</i>	-0.1219* (0.0652)	-0.1163* (0.0626)	-0.0760 (0.0534)	-0.0583 (0.0553)
<i>Lag_Loss</i>	0.0312** (0.0151)	0.0318** (0.0145)	0.0186 (0.0124)	0.0156 (0.0128)
<i>Big4</i>	0.0636 (0.0626)	-0.0058 (0.0602)	0.0796 (0.0513)	-0.0348 (0.0532)
<i>Firm fixed effects</i>	Yes	Yes	Yes	Yes
<i>Year fixed effects</i>	Yes	Yes	Yes	Yes
<i>Board data missing indicator</i>	Yes	Yes	Yes	Yes
<i>Observations</i>	3,567	3,567	3,567	3,567
<i>R²</i>	0.3446	0.3411	0.3053	0.3224

This table presents regression results of ICMW on partisan discord and control variables, with the dependent variable being an indicator for ICMW in column I, for SOX Section 302 ICMW in column II, for SOX Section 404 ICMW in column III, and for employee-related ICMW in column IV. All variables are defined in the Appendix. All continuous variables are winsorized at the 1st and 99th percentiles. *, **, and *** indicate $p < 0.10$, $p < 0.05$, and $p < 0.01$, respectively, for a two-tailed test; standard errors are clustered at the firm level and reported in parentheses.