Partisan Bias in Venture Capital Investments

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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 study offers novel insights into how ideological alignment influences venture investment behavior and performance with implications for entrepreneurs, investors, and policymakers.

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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 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 may 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-

[1] Other 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).

[2] Keach 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, corroborating 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 local political pressures, could shape economic behaviour and investment outcomes. Existing studies highlight that alignment with the incumbent president or local political preferences can influence optimism, resource allocation, and firm performance (Bonaparte et al., 2017; Kempf et al., 2023). For example, companies politically aligned with the ruling administration often benefit from increased access to resources and favourable regulatory conditions. Similarly, firms tend to adapt to the prevailing cultural and ideological norms (Hutton et al., 2014). In the VC context, these external alignments may amplify the trust benefits of political homophily or mitigate the adverse effects of in-group favoritism. We hypothesize that alignment with the broader political environment provides legitimacy and resources that might counteract the internal inefficiencies arising from increased team cohesiveness.

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, (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 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 formation.

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 relative 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. In particular, 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 remain 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 a 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 com-

pany 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 local political environment (e.g., both are Republican-leaning during a Republican administration) experience better exit outcomes, effectively reversing the negative homophily effect. Additionally, firms that depend on government resources, such as those engaged in lobbying or securing government contracts, outperform politically independent firms. These findings suggest 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 other types of homophily between partners and CEOs, including shared gender, ethnicity, and educational background. We find that the effects of political homophily remain significantly negative on investment performance, 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 find 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 differ-

ent exit routes. A multinomial logit estimates indicate that political homophily significantly reduces the likelihood of IPO and M&A exits relative to non-exits, with the effect 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 and reduces the perceived initial 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, Huber and Malhotra (2017) 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 ideology is a deliberate choice that reflects a person's perceptions and worldview. In professional settings, this means that 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 and debate with political discussions, while discussions around traits 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 toler-

ance are likely to be more prominent 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 CEO's 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 numerous 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 of common values, which can reduce perceived risk and assist the formation of relationships. In the high stakes and information asymmetry environment of venture investing, 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 enhance investment performance through information efficiency, it can also establish in-group favoritism biases that can lead 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 which would have a positive effect on performance.

Thus, generally 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 by reducing information asymmetry. 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.

Despite the insights on homogeneous teams, 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 trust can facilitate cooperation and strategic consensus, excessive alignment in opinions may lead to VCs and CEOs to echo each other's biases. If both parties share the same political views, they might overlook alternative strategies or warnings, potentially missing 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 channel.

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 VC and portfolio company CEO 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 the 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 counterbalance internal inefficiencies from reduced diversity of thought or magnify the potential benefits from trust and information efficiencies. In line with the view of resource dependence, being politically aligned with the political environment can also facilitate preferential access to government grants, 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 governance is associated with increased investor optimism and willing-

ness 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 behaviours. 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 religious counties (more conservative) exhibit lower risk tolerance, reflecting the risk-averse local norms. These findings suggest that alignment with local political norms can affect decision-making and performance. A venture aligned with local values may gain stronger community legitimacy and support (e.g., favorable local press or customer base). Based on above theoretical and empirical links, we expect that external alignment will positively moderate

[3]Related 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.

the relationship between political homophily and venture performance. 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 realized deal-level data for U.S. entrepreneurial firms receiving funds from VC investors within the United States for the period spanning from 2000 to 2021. This data is sourced from Thomson Reuters Eikon Private Equity (previously known as VentureXpert) which 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 through a multi-stage process using a combination of automated and manual techniques. Initially, we conduct a fuzzy matching algorithm to link VC firms and portfolio companies in VentureXepert with corresponding records in BoardEx. BoardEx provides detailed bi-

ographical information, including names and tenure dates for partners and CEOs.[4] For companies and individuals not matched in BoardEx, we apply a second round of fuzzy matching with Capital IQ.[5] While Capital IQ provides partner and executive data, it often lacks precise tenure dates. To address this limitation, we manually supplement missing information from LinkedIn profiles, personal biographies, company websites, and news articles. This ensures a higher level of completeness and accuracy for partner and CEO biographical data.

Finally, we source data on individual political contributions from the Federal Election Commission (FEC), which includes detailed records of political donations exceeding $200.[6] The FEC dataset includes donor names, donation amounts, transaction dates and types, committee affiliation, employment details (company and position) and location (city, state, and zip code). Our focus is on identifying 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 using the Centre for Responsive Politics (CRP) and additional online sources. To ensure the accuracy of matches across databases, we employ a multi-stage cleaning and matching process following practices outlined in 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 sample consists of 2,516 VC firms with 16,484 active partners, as well as 9,138 portfolio companies managed by 9,820 unique CEOs. This results in a total of 37,717 realized investment deals for the period between 2000 and 2021.

[4]We 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.

[6]The 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 arises from the fact that we observe only realized deals, while the potential deals considered by VC firms but not realized remain unobserved. To address this, we follow prior studies on VC investments (Hegde and Tumlinson, 2014; Bengtsson and Hsu, 2015; Gompers et al., 2016; Garfinkel et al., 2024), by constructing a set of potential investments for each realized deal. Specifically, for every realized deal in our sample, we identify potential matches that occurred in the same investment year, industry, stage, and state, but involving 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 but were not led by Flagship Ventures. By applying these procedures across the dataset, we construct a comprehensive dataset of 1,296,331 deal 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, we use the realized deal sample 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 the Republican Party

(R_i) and the Democratic Party (D_i), divided by total donations to both parties:

$$Ind\_Rep_i = \frac{R_i - D_i}{R_i + D_i} \tag{1}$$

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. For example, the mathematical formula for VC_Rep is:

$$VC\_Rep = \frac{1}{N} \times \sum_{i=1}^{N} Ind\_Rep_i \tag{2}$$

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, by employing a similar manner. 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:

$$PHI = 1 - \frac{|VC\_Rep - Company\_Rep|}{2} \tag{3}$$

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 lit-

erature (Lee et al., 2014; Dasgupta et al., 2024). First, we construct *PHI_Year* which is based on individuals' annual political donations, accounting for time-varying factors. Additionally, we use *PHI_Strong* which focuses on politically strong donors by including only *Ind_Rep* values where the difference between Republican and Democratic donations exceeds $2,000, minimizing noise from opportunistic donations. Further, we define *PHI_Cycle* as the average donations over election cycles to capture differences in trends to the Republican and Democratic. Finally, we consider individuals with extreme political affiliations by forming the *PHI_Polarizer* which includes *Ind_Rep* with exclusive donations to the Republican Party ($Ind_Rep = 1$) or Democratic Party ($Ind_Rep = -1$).

3.4 Measures of Dependent Variables

Our empirical analysis begins by examining whether a VC firm's investment decisions are influenced by political similarities with portfolio companies. The primary outcome variable, *Deal*, is an indicator variable equal to 1 for a realized deal and 0 for a counterfactual deal.

To evaluate the impact of political alignment on firm performance, we use well established performance proxies, measured by the type of exit and the time to exit. More specifically, the first outcome variable, *Exits*, is a binary indicator equal to 1 for VC-backed companies that exit via an IPO or M&A and 0 otherwise (Hochberg et al., 2007; Ewens and Marx, 2018; Gu et al., 2022). To add further granularity into our analyses, we 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.

We also consider the duration from the VC investment to the exit event. *Time* is measured as the logarithm of the number of days between the VC investment round to the exit date (IPO or M&A). For companies that do not experience an exit during the sample period, the duration is right-censored at the end of 2022, with the survival function measuring the time from the round date to the study's end period. *Time_IPO*, *Time_M&A*,

and *Time_Liquidation* are similarly constructed for those VC-backed firms that exit via IPO, acquisition, or liquidation. These duration-based measures provide insights into the time it takes for companies to achieve high returns for existing owners and VC investors using survival analysis (Nahata, 2008).

3.5 Control Variables

We also include several control variables at the VC firm, company, and deal levels to account for established factors that may 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 also 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 a 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 the 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 in which the VC participated for the portfolio company (*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*) to 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 of our variables. Panel A shows that the average probability of a portfolio company receiving VC financing 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&A exits 7.1 years.

The mean (median) value of our key variable, *PHI*, is 0.719 (0.750). Panel A of Figure 1 provides the yearly distribution of average *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 Table 1]

Table 1 also presents the summary statistics of control variables. For instance, companies in our dataset experience an average of 2.8 investment rounds and involve 2.5 VC firms per funding round. Additionally, 50.2% of the deals in our sample are in the early stage, with an average investment amount of $4.1 million per deal.

[Insert Figure 1]

[Insert Figure 2]

Table 2 provides the Pearson correlation matrix for the main variables. *PHI* is negatively and significantly associated with both the likelihood and duration to successful exits via IPO or M&A at the 1% level. This evidence lends support to Hypothesis 2, suggesting that political homophily is negatively associated with exit performance. Importantly, the pairwise correlations between the other variables are below 0.6, indicating that multicollinearity is unlikely to impact the validity of our regression results.

[Insert Table 2]

4 Empirical Results

4.1 Political Homophliy and Investment Decisions

To investigate the likelihood of matching between a VC and a portfolio company driven by political homophily, we construct the counterfactual pairs detailed in section 3.2. We then estimate the investment decision with the following model:

$$Deal_p = \alpha + \beta PHI_{i,j,t} + \gamma' X + \phi_i + \delta_j + \eta_t + \epsilon_p \tag{4}$$

where the dependent variable, $Deal_p$, is a binary variable equal to 1 if a VC i invests in company j, and 0 otherwise; and p proxies a potential VC-company deal pair. The explanatory variable of interest, $PHI_{i,j,t}$, is the political homophily index between VC i and company j at investment year t. The vector X represents a set of controls 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 deal pair level to account for serial correlation.[7]

[Insert Table 3]

Table 3 reports the linear probability regression results for the impacts of political alignment on the likelihood of investment decision. We report the regression results without and with control variables in Columns (1) and (2), respectively. The coefficient on PHI is positive and statistically significant at the 1% level in both columns, suggesting that the increase in political similarity between a VC and a company is associated with increased matching likelihood. In economic sense, as shown in Column (2), 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 is associated with an approximately 13% (0.0035/0.027) increase in the likelihood of an investor choosing to fund a company.

In Column (3), we present a stricter specification by incorporating $Year \times VC$ and $Year \times Company$ fixed effects, which accounts for time-varying unobservable factors at both the VC and company levels that may influence investment decisions. For instance, the fixed effects control for factors such as VC and company size, specialization, management quality, industry experience, and market conditions. We find that the positive and statistically significant coefficient on PHI persists with a more stringent empirical specification in Column (3).

Several interesting results emerge from the control variables in Table 3. We find that younger companies (*Company_Age*) are more likely to receive VC funding. Similarly, a larger number of VC partners (*VC_Partners*) is positively associated with the likelihood of

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

investment, indicating that the size of the VC firm plays a role in investment decisions. As expected, geographical distance (*Distance*) is negatively correlated with investment likelihood, consistent with the cost of monitoring effects in the venture capital industry (Tian, 2011; Bernstein et al., 2016). Lastly, the *Industry_Fit* is positively correlated to funding likelihood, implying that companies aligning with the strategic interests of investors are more likely to secure funding (Bottazzi et al., 2016). Overall, the results in Table 3 support our hypothesis, showing that political alignment between the VC firm and the company is positively correlated with the likelihood of investment.

4.1.1 Robustness Tests

We conduct several robustness tests for the investment decision analysis. We consider alternative constructions of the political homophily index to address potential measurement error or bias. Table 4 reports the coefficient estimates using the alternative measures of the political homophily index (discussed in 3.3), including *PHI_Year*, *PHI_Strong*, *PHI_Cycle*, *PHI_Polarizer*, presented in Columns (1) - (4). Across all specifications, 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]

In addition, we 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 Poisson Pseudo Maximum Likelihood (PPML) estimation as a robustness check. 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. For instance, companies might strategically signal political alignment to match the ideological preferences of potential VC investors. To address for endogeneity in the relationship between political homophily and VC investment decisions, we use the Sinclair Broadcast Group expansion in the U.S. market as an exogenous shock to local political attitudes. Sinclair's has rapidly grown since the early 2000s through acquiring local TV stations.[8] Sinclair is widely recognized as a conservative-leaning media that shifts the political attitudes of local populations to the right (Levendusky, 2022; Dasgupta et al., 2024; Pan et al., 2024). Importantly, Sinclair's market entry is primarily driven by supply-side factors, such as acquisition opportunities and economies of scale, and is largely uncorrelated with 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 how shifts in political alignment affect the likelihood of VC-company matching.

We obtain data on the list of Sinclair-owned TV stations from RabbitEars, Wikipedia, and annual reports.[9] The sample consists of 238 TV stations and translators in 81 designated market areas (DMA) from 2000 to 2021.[10] To provide initial evidence on the impact of Sinclair's Republican-leaning political ideology, we first estimate regressions between Sinclair's entry and the Republican index of VCs and companies headquartered in those markets. The OLS regression results (presented in Table A3) show that Sinclair's entry significantly shifts the political leanings of VC partners toward the Republican party, with the coefficient of *Sinclair_VC* being positive and significant at 5% level. The regression for company CEOs in Column (2) shows no significant effect of Sinclair's entry on CEO

[8] Sinclair 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/.

[9] Data 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

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

political leanings. As a result, we use the shocks from the entry of Sinclair into VC firms to explore shifts in political homophily.

We then perform the staggered difference-in-difference analysis on investment deal formation around entry of Sinclair into the TV markets. Since Sinclair's expansion tends to shift local political attitudes toward the right, we expect the ideological distance between a VC and a company to decrease only when the Republican index of untreated company is more than that of the VC.[11] Thus, we expect that the decrease (increase) in political distance (political homophily) facilitates the deal formation between VC and company. Specifically, we estimate:

$$Deal_p = \alpha + \beta(Treat \times Post) + \gamma' X + \varphi_i + \delta_j + \eta_t + \epsilon_p \tag{5}$$

Where $Deal_p$ is a binary variable equals 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 in 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 the likelihood of investment decisions increases when political alignment between VC and company increases due to Sinclair's entry. The effect is economically sizeable. As shown in Column (1), we find that treated pairs experience 29.3%

[11] We 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.

[12] For 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.

(0.0079/0.027) increase in the investment likelihood, relative to control pairs. Columns (3) and (4) report the dynamic DiD estimations, which examine the timing of changes in matching likelihood surrounding Sinclair's entry. We find no significant difference in the matching likelihood between treated and control VC-company pairs before Sinclair's entry, indicating that Sinclair's entry is exogenous to VC investment decision. Overall, using the Sinclair's entry as a source of exogenous variation in political homophily supports a casual interpretation on the effects of political homophily on the matching likelihood of VC investments.

4.2 Political Homophily and Investment Success

After investigating the impacts of political alignment on investment matching, we next explore whether such alignment contributes to superior venture performance. To address this question, we estimate the following linear probability model to examine the types of successful exits:

$$Outcome_{j,t} = \alpha + \beta PHI_{i,j,t} + \gamma' X + \phi_i + \delta_s + \eta_{f,t} + \epsilon_p \tag{6}$$

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. $PHI_{i,j,t}$ is the political homophily index between VC i and company j at investment year t. X represents a set of VC firm, company, and deal level characteristics as discussed in Section 3.5. ϕ_i, δ_s, and $\eta_{f,t}$ denote VC, company state, and industry-year fixed effects, respectively.[13] Standard errors are clustered at the VC level.

We then consider the time to successful exits via IPO or M&A as an alternative measure of performance. In line with prior studies (Giot and Schwienbacher, 2007; Nahata, 2008;

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

Cumming et al., 2017), we estimate a Cox proportional-hazards model as follow:

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

where $h(t)$ is the hazard rate of successful exits via IPO or M&A. t denotes the time from the investment date to the 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, $PHI_{i,j,t}$, and the hazard rate. A positive coefficient suggests a shorter time to exit, while a negative coefficient indicates a delayed exit. The control variables, X, are the same as in Equation (6). We also include industry-year ($\eta_{f,t}$), company state (δ_s), and VC (ϕ_i) fixed effects. Standard errors are clustered at the VC level.

[Insert Table 6]

Columns (1) to (2) and Columns (3) to (4) of Table 6 report the results for the likelihood and duration of successful exits via IPO or M&A, respectively. In Columns (1) and (3), we find that the coefficient on PHI is negative and statistically significant at the 1% level in regressions of both *Exits* and *Time*. In terms of economic magnitude, the coefficients indicate that one unit increase in the political similarity between VC and company decreases the likelihood of successful exits by 5.0%, while a 1% increase in PHI lowers the hazard of a positive exit by 19.8% ($(1 - e^{-0.221}) \times 100\%$). The results remain robust when we add control variables in Columns (2) and (4), although statistical significance drops to the 5% level. In summary, both the linear probability model and survival analysis indicate that the political alignment between VC and company reduces the likelihood of successful exits and delays the time to such exits.

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

To further illustrate the effect of political alignment on venture success, we plot a kernel density graph of the predicted fitted values for successful exits, using the full set of controls but excluding the political homophily index. We define an indicator variable, *PHI_High*, equal to 1 if the *PHI* is above the sample median, and 0 otherwise. Figure 3 shows that VC-company pairs with high political similarity are generally left-shifted, suggesting that these deals tend to underperform relative to expectations. Additionally, we plot the predicted survival curves of successful exits after fitting the Cox proportional hazards model to illustrate the dynamics of political homophily on exit durations. Figure 4 shows that the survival curve for investments with higher *PHI* (red solid line) is consistently above that for investments with lower *PHI* (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, together with Figure 3 and Figure 4, provide support for our hypothesis, showing that political homophily is negatively associated with investment success potentially due to in-group favoritism bias.

4.2.1 Robustness Tests

In addition to using the individual's all history donations, we construct alternative political homophily indices to mitigate potential bias and noise in the model (Lee et al., 2014). Specifically, we first create a time-varying index, *PHI_Year*, using individuals' annual political donations. Additionally, to minimize the noise from opportunistic donors, we construct *PHI_Strong*, which uses the *Ind_Rep* only when an individual's donation difference between the Republican and Democratic parties exceeds $2,000. Further, *PHI_Cycle* is a measure to capture variations in donations to the Republican and Democratic parties, averaged over election cycles. Finally, *PHI_Polarizer* restricts *Ind_Rep* to individuals

who exclusively donate to either the Republican Party ($Ind\_Rep = 1$) or Democratic Party (Ind_Rep = -1).

[Insert Table 7]

We re-estimate Equations (6) and (7) using these alternative PHI measures, with results presented in Table 7. Panel A reports estimates for the likelihood of successful exits ($Exits$) using a linear probability model, while Panel B presents the results for time-to-exit ($Time$) using a Cox hazard model. Across all four alternative measures, PHI consistently reveals negative and statistically significant coefficients in both models. PHI_Year is only marginally significant in the survival analysis. Overall, these results increase the robustness of our baseline findings and alleviate concerns about potential measurement errors.

Furthermore, 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). Given that PHI may be driven by the political ideologies of VC partners and CEOs, we extend the analysis by controlling for the average Republican index of VC partners (VC_Rep) and company CEOs ($Company\_Rep$) as additional explanatory variables.

Panel C of Table 7 shows that the inclusion of VC_Rep and $Company\_Rep$ aligns with our baseline findings, with PHI being statistically significant at the 1% level beyond the political ideologies. Notably, the coefficient of $Company\_Rep$ is negative and significantly associated with company performance, suggesting that political ideology may influence entrepreneurial success. One plausible explanation is supported by the behavioral consistency theory, which posits that Democratic CEOs exhibit higher openness to change and risk-taking, while Republican CEOs tend to be more conservative and risk averse (Jost, 2006; Chin et al., 2013; Hutton et al., 2014). Within the entrepreneurial context, where risk tolerance is crucial for managing uncertainties and driving venture success (Korunka

et al., 2003; Hall and Woodward, 2010), the openness and risk tolerance of Democratic CEOs may indicate a competitive advantage over Republican counterparts.

4.2.2 Investment Success around VC Partner Changes

The previous results suggest that higher political alignment between VCs and portfolio companies is associated with weaker investment performance. To better approximate the casual effect of political homophily on the investment success, we investigate whether changes in VC partners' partisan affiliation alter the partisan bias impact on the investment outcome. In so doing, we measure changes in VC partners partisan affiliation through VC partner turnover. 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 classifiy treated VC firms as those experiencing partner changes leading to a shift in the VC firm's partisan affiliation. Following Wintoki and Xi (2021), we define an increase (decrease) in VC_Rep under three scenarios, given that Ind_Rep is constructed based on an individual's full donation history: (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, an increase (decrease) in VC_Rep leads to a corresponding decrease (increase) in PHI, reflecting a shift in the political alignment between the VC firm and its portfolio companies.[15]

Based on above descriptions, we construct a treatment indicator ($Treat$) for VC deal pairs, where $Treat$ equals 1 if the PHI increases as VC_Rep decreases, -1 if PHI decreases

[15]We 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.

as VC_Rep increases, and 0 if VC firm does not experience any of the defined scenarios. For our difference-in-differences (DiD) analysis, we require observations spanning three years before and after the partner change in the VC firm.[16] Our final sample consists of 571 treated VC firms, and 1,560 VC firms as controls. The year of the partner turnover event is defined as the event year (year 0).The variable *Post* is a binary variable, equal to 1 if year t falls after the turnover event and 0 otherwise. Among the 571 treated VC firms, 278 experienced a positive treatment ($Treat = 1$), while 293 experienced a negative treatment ($Treat = -1$). We then estimate the following DiD regression model:

$$Outcome_{j,t} = \alpha + \beta(Treat \times Post) + \gamma' X + \phi_i + \eta_t + \epsilon_p \tag{8}$$

Where $Outcome_{j,t}$ is a binary variable equal to 1 if portfolio company j successfully exits via IPO or M&A at the investment date t, and 0 otherwise. The vector X represents a set of control variables as defined in Equation (6). 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 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.

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

4.3 Political Environment and Partisan Bias

This section examines whether the relationship between political homophily and venture capital investment success is shaped by the broader political environment, including the local partisan preferences and the influence of the incumbent president's party affiliation. Specifically, we investigate how these contextual factors may amplify or mitigate partisan bias, thereby providing additional insights into the underlying mechanisms driving the observed association between political alignment and investment outcomes.

4.3.1 Local Political Environment and Partisan Bias

We begin by analyzing the role of local political environment in shaping investment decisions. Prior studies suggest that individuals embedded in specific social environments internalize shared cultural and ideological identities through interactions (Tajfel, 1982). For instance, Chircop et al. (2020) find that VC firms located in more religious counties exhibit lower risk tolerance, reflecting the risk-averse norms of their local communities. Similarly, Bhandari and Golden (2021) document that Republican CEOs rate firms located in conservative regions with higher credit scores, aligning with the ideological characteristics of the local community.

Beyond local influences, the broader political conditions significantly shape individual optimism and risk preferences in investment decisions (Bonaparte et al., 2017). Investors tend to endorse economic policies and exhibit greater confidence for the economic outlook when their preferred political party is in power. Empirical studies provide evidence of this phenomenon: partisan alignment between corporate executives or financial professionals and the incumbent president has been linked with higher levels of investment activity, more optimistic corporate disclosures, increased innovation output, and improved corporate credit ratings (Kempf and Tsoutsoura, 2021; Arikan et al., 2023; Engelberg et al., 2023; Rice, 2024).

Based on these findings, we would expect that the partisan bias is likely to be more

(less) pronounced when VC firms are located in predominantly Republican areas and when a Republican (Democratic) president is in office. To empirically test this hypothesis, we construct *County_Rep*, a variable which captures the Republican vote share in the most recent presidential election at the county level where each VC firm is headquartered. We then divide the sample into two groups based on the political affiliation of the incumbent president, categorizing observations into Republican years and Democratic years. To examine the impacts of local political preferences with the party of the sitting president, we estimate Equations (6) and (7) separately for Republican and Democratic presidencies, including an interaction term between *PHI* and *County_Rep*.

[Insert Table 9]

Table 9 reports the results, revealing an interesting pattern. In particular, the political alignment between VCs and portfolio companies becomes positive when local political preferences align with the party of the incumbent president. In Columns (1) and (3), the estimated coefficient on the interaction term between *PHI* and *County_Rep* is positive and statistically significant during Republican presidencies. This result suggests that political alignment between VCs and companies, reinforced by the alignment between local political preferences and the president's party, enhances the likelihood and shortens the time to successful exits via IPO or M&A. In contrast, during Democratic presidencies as shown in Columns (2) and (4), the estimated coefficient on the interaction term is negative, although not statistically significant, indicating a weaker or insignificant effect in Democratic-led political environments.

Overall, our results document a negative relationship between political alignment and investment success supporting the in-group favoritism bias. However, when local political preferences align with the incumbent president's party, the broader political environment may provide institutional advantages or facilitate of resource allocation, effectively reversing the negative effects of political homophily. For example, firms in politically aligned

regions may be more likely to receive government support, including tax incentives, government subsidies, or regulatory benefits, which enhance investment outcomes. These findings highlight that the dynamics of the three-way political alignment can be more complex in determining venture capital investment success.

4.3.2 Closer to the President

As discussed earlier, the incumbent president's party affiliation can impact investor sentiment by generating optimistic expectations regarding a firm's exposure to favourable government policies. In this section, we provide evidence on whether political alignment between VC firms and portfolio companies enhances investment success when both are closely aligned with the incumbent president.

Following Arikan et al. (2023), we construct a measure of partisan alignment between VC firms and the president (VC_Pres_Align) by multiplying VC_Rep by $President\_Rep$. Specifically, $President\_Rep$ is assigned a value of 1 if the U.S. president is Republican, and -1 if the president is Democratic. By construction, VC_Pres_Align ranges from -1 to +1, with a more positive (negative) value indicating higher (lower) alignment with the president's party. We construct $Company\_Pres\_Align$ following the same methodology.

[Insert Table 10]

To examine the joint effect of political alignment across multiple levels, we estimate the models in Equations (6) and (7) including a triple interaction between PHI, VC_Pres_Align, and $Company\_Pres\_Align$. The results, presented in Table 10, show that the coefficients on the triple interaction term are positive and statistically significant at the 5% level for both likelihood of successful exits and the time-to-exits. Economically, the coefficients in Column (1) indicate that a one-unit increase in political similarity between the VC and the company increases the likelihood of successful exits by 10.60%, provided that both the VC

and the company are closely aligned with the incumbent president's political affiliation. Importantly, we find no evidence that political alignment on either side (VC or company) alone significantly influences investment outcomes. These findings suggest that partisan alignment across all three levels, including VC firm, portfolio company, and the incumbent president, enhances investment outcomes. This finding corroborates the idea of an important role of the broader political environment in shaping venture capital investment performance, likely by facilitating access to external resources.

4.3.3 Politically Dependent Companies: Lobbying and Government Contracts

Previous results suggest that both local political environment and alignment with the incumbent president contribute to improved investment outcomes. We argue that companies aligned with the political environment are more likely to receive government support, including tax incentives, government subsidies, or regulatory advantages, which can enhance investment outcomes. If this is the case, we expect these effects to be more pronounced for companies that are highly dependent on government resources.

To empirically test this hypothesis, we first obtain lobbying data from the Centre for Responsive Politics (CRP). Lobbying expenditures allow corporations to influence government policies through monetary contributions, which serve as powerful tools for applying pressure and shaping regulatory outcomes (Burris, 2001; Yu and Yu, 2011; Correia, 2014). We construct *Lobby*, a binary variable equal to 1 if the company engages in lobbying during the investment year, and 0 otherwise. Additionally, to directly assess a company's dependence on government resources, we use data on government procurement contracts from USAspending.gov, following prior studies (e.g., Brogaard et al., 2021; Samuels, 2021). We construct 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 11]

Table 11 presents the results of the analysis. We separately estimate the effects of political alignment based on whether firms engage in lobbying activities or receive government contracts. The estimates in Columns (1) and (3), which correspond to companies that engage in lobbying or receive government contracts, are not statistically significant. In contrast, 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 suggest that politically independent companies tend to underperform relative to those benefiting from lobbying activities or government support.

Collectively, the analysis in Table 9-11 examine how the broader political environment, including local political geography and alignment with the incumbent president, moderates the impact of political homophily on venture capital investment outcomes. The results highlight that partisan alignment between VC firms and portfolio companies enhances investment success when aligned with the president's party or supported by local political preferences. Additionally, firms dependent on government resources, such as those engaging in lobbying or securing government contracts, outperform politically independent firms. These findings suggest that the political environment serves as a critical facilitator of resource allocation and institutional advantages, reversing the adverse effects of in-group favoritism bias.

4.4 Additional Analysis

4.4.1 Other Types of Homophily

In addition to the political homophily between VCs and portfolio companies, it is possible that alternative social ties and unobserved characteristics also impact venture partnerships and investment success. Prior studies identify several determinants of VC partnerships, including ethnic similarities (Hegde and Tumlinson, 2014; Bengtsson and Hsu, 2015), career development (Gompers et al., 2016), and educational ties (Garfinkel et al., 2024). To

ensure the robustness of our findings on political homophily, we extend our analysis to include 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 the following alternative types of homophily: (i) gender similarity (*Gender_Similarity*) is 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 CEOs at the portfolio company [17]; (ii) ethnicity similarity (*Ethnicity_Similarity*) is a binary variable equal to 1 if at least one of the company's CEOs shares the same ethnicity as any of the VC partners, classified across eight ethnic groups [18]; and (iii) educational similarity (*Education_Similarity*) is measured as a binary variable that equals 1 if at least one of the company's CEOs and any VC partner attended the same university.[19] We then re-estimate models in Equation (6) and (7) by including these three additional types of homophily separately.

[Insert Table 12]

The results are presented in Table 12. Panel A reports estimates for the likelihood of successful exits, while Panel B examines the time to exit. Across all three regressions within each panel, the coefficient on PHI remains significantly negative, with both statistical significance level and coefficient magnitude being close to our baseline findings. In contrast, we do not find strong evidence that other forms of social identity as gender,

[17] Both 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).

[18] We 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.

[19] The 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.

ethnicity, and education, significantly affect the venture outcomes. Overall, these results corroborate that political alignment between VC and company plays a crucial role in venture partnerships and success, separate from the impact of other social and demographic similarities. Importantly, it provides evidence in support to this research stream which argues that political beliefs as a source of identity can have strong implications in corporate environments determining strategic priorities.

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 of a political mismatch between credit rating analysts and the president's party on credit ratings are more intense during periods of heightened 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 polarization periods.

[Insert Table 13]

To empirically test this, we employ the Partisan Conflict Index (PCI) proposed by Azzimonti (2018). Specifically, we standardized the monthly PCI by taking its annual average as in Duchin et al. (2024).[20] We then construct *PCI_High*, a binary variable equal to 1

[20]We 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.

if the PCI is above the sample median, and 0 otherwise. Table 13 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. We observe similar results for the time to successful exits in Columns (3) and (4).

Taken together, these results suggest that the adverse effects of political alignment on investment outcomes are significantly more pronounced when political polarization is higher. 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.

4.4.3 Different Types of Exits

As a further robustness check, we examine the distinct effect of political alignment on different types of exits in a multinomial framework. The dependent variable takes three discrete values related to IPOs or M&A, liquidations, and those companies that are still active. The results from Model (1) in Table 14 reveal a negative association between political homophily and positive exits (IPO/M&A), with statistically significant at 1% level. Additionally, there is a positive association with negative exits (liquidation), although not statistically significant. Overall, these findings are consistent with our baseline results.

[Insert Table 14]

We, then, examine the distinct effect of political homophily on the propensity for IPOs or M&As. IPOs are commonly perceived as the most successful outcome for both VC

investors and entrepreneurial companies, while the M&A is a broader exit pathway with varying valuations (Bayar and Chemmanur, 2011; Bottazzi et al., 2016; Gu et al., 2022). Therefore, we adopt the multinomial logistic regression to investigate the likelihood of companies exiting through either IPOs or M&As. The dependent variable takes three discrete values related to IPOs, M&As, and companies that are still active. Our findings in Model (2) of Table 14 indicate a negative and statistically significant association between political homophily and both IPOs and M&As, with IPOs exhibiting a larger coefficient.

4.5 Political Homophily and Investment Structure

Our findings thus far suggest that political alignment between VCs and portfolio companies enhances the likelihood of partnership formation but is negatively associated with investment performance. In the final part of our analysis, we examine how political alignment influences the structure of investment deals. First, we investigate the relationship between political alignment and the investment stage. Early-stage and early-round investments are typically associated with higher information asymmetry and greater risk of rent dissipation during the VC screening process, which makes "trust" an important factor in early-stage partnerships (Bottazzi et al., 2016). Political alignment, as a proxy for trust, may increase the propensity for VCs to invest in earlier stages compared to later stages. Second, we analyse the impact of political alignment on the likelihood of syndication. The rationale is that higher levels of trust, measured as political alignment, results in higher level of sharing costs, which may reduce the VC firm's willingness to share deals with co-investors.

Based on above arguments, we construct four key dependent variables similar to Equation (6). *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 takes a value of 1 if the VC invested in the first round, and 0 otherwise. *Syndication* is a binary variable equals 1 if the investment rounds involving more than one VC, and 0 otherwise. *Follow_Round*

measures the duration from the investment date to the following round of financing. For companies without next round financing, the duration is right-censored at the end of 2022.

[Insert Table 15]

Table 15 reports the regression results. Columns (1) and (2) indicate positive and statistically significant coefficients on PHI, where the dependent variables are $Early\_Stage$ and $Round\_1st$, at the 5% and 1% significance levels, respectively. Conversely, in Column (3), the coefficient on PHI, with $Syndication$ as the dependent variable, is negative and significant at 5% level. Additionally, using the Cox hazard model in Column (4), we find that PHI is negatively and significantly associated with $Follow\_Round$, which indicates that politically aligned ventures experience slower follow-on financing, with longer intervals before securing subsequent investment rounds. Taken together, these findings suggest that while political alignment enhances trust and reduces the perceived initial risk, it may also lead to overconfidence, groupthink, and a diminished ability to recognize external funding needs and growth opportunities.

5 Conclusion

In this paper, we investigate the political partisanship between VC partners and company CEOs affect investment decisions, subsequent performance, and deal structures. Using a sample of 37,717 U.S. based VC deal level data for the years 2000 to 2021, we find that political homophily enhances the likelihood of VC partnerships by fostering mutual trust and mitigating information asymmetry. However, political alignment reduces the likelihood and delays the timing of successful exits via IPOs or M&As, consistent with the in-group favoritism channel.

Our findings also highlight the significant of the political environment, showing that political alignment improves investment outcomes when both VC firms and companies

align with the incumbent president or local political preferences. Particularly, politically dependent firms, such as those engaged in lobbying or securing government contracts, outperform independent firms, suggesting the presence of partisan connection-seeking in the VC industry. Additionally, we find that the effects of political alignment on investment outcomes are more pronounced under higher political polarization. Furthermore, political homophily shapes investment structures by increasing the likelihood of early-stage investments while decreasing the propensity for syndication among VCs. These results remain robust across alternative measures and model specifications.

This study complements the existing literature that focuses on the determinants of venture capital financing by shedding new light on the effects of political partisanship bias in investment decisions and outcomes. Given the critical role entrepreneurial ventures play in driving technological innovation and economic growth, understanding the implications of biases, such as political homophily, is crucial for navigating the nuanced trade-offs between fostering trust and achieving optimal performance in venture capital markets. Furthermore, as corporate America becomes increasingly partisan, with executive teams reflecting ideological homogeneity (Fos et al., 2023), this study holds vital implications for key stakeholders, such as entrepreneurs, venture capital providers, and policymakers, of how political partisanship shapes decision-making and economic outcomes in one of the most innovative sectors.

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Figures

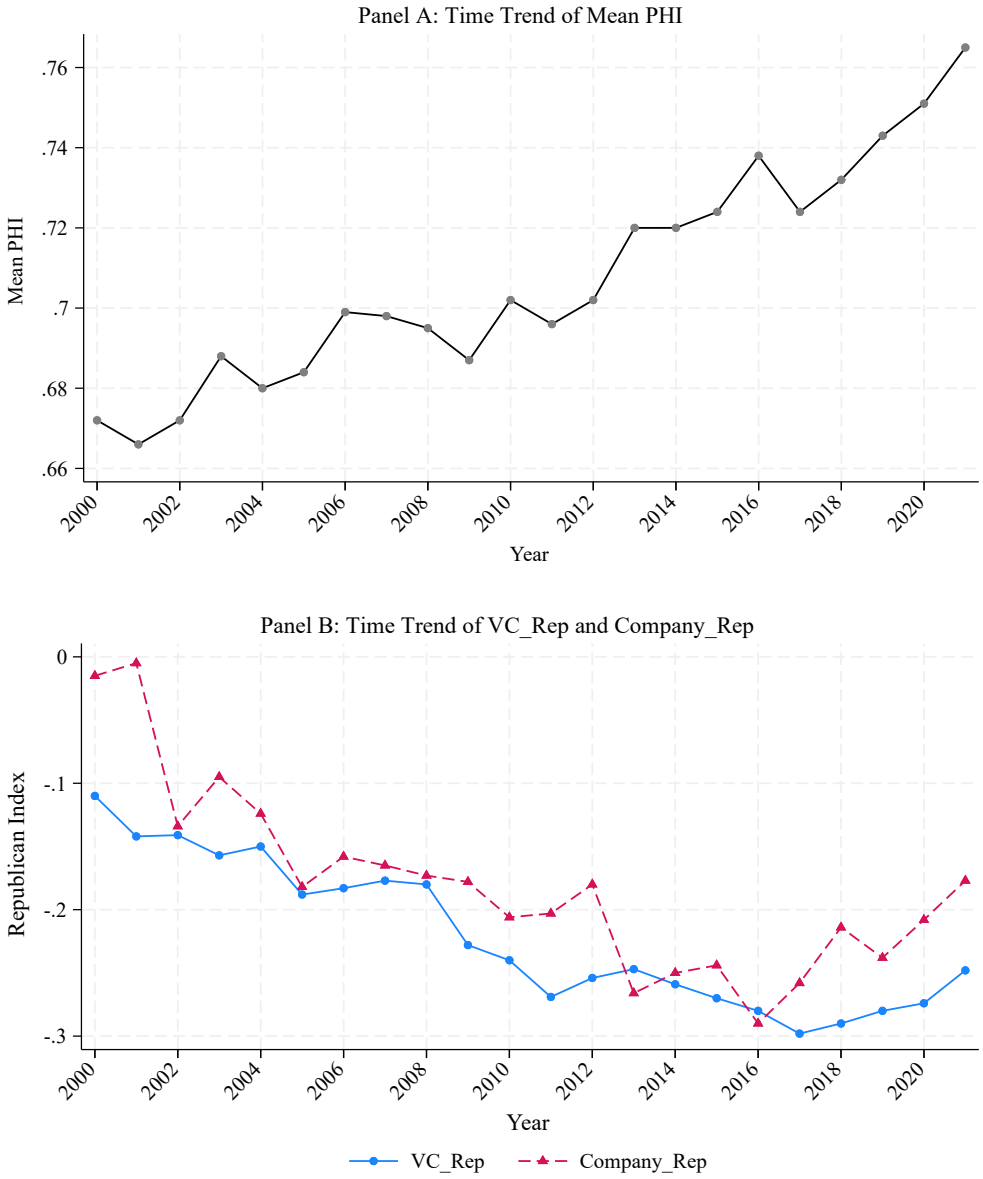

Figure 1: Time Trends of Political Homophily and Republican Affiliation Indices.

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.

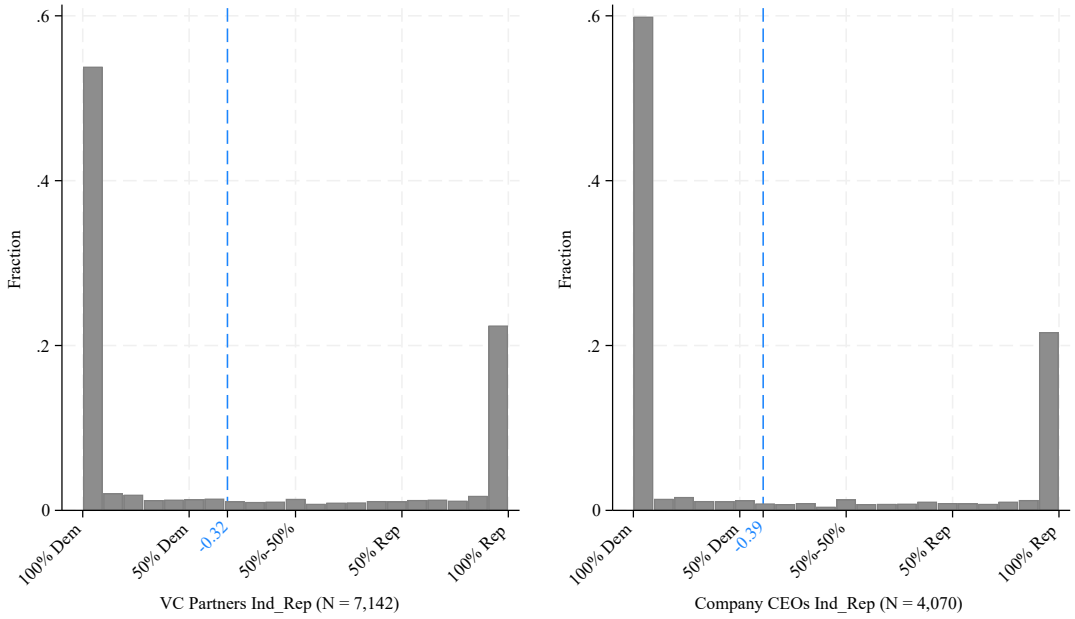

Figure 2: Distribution of Matched Individual Level Republican Index.

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.

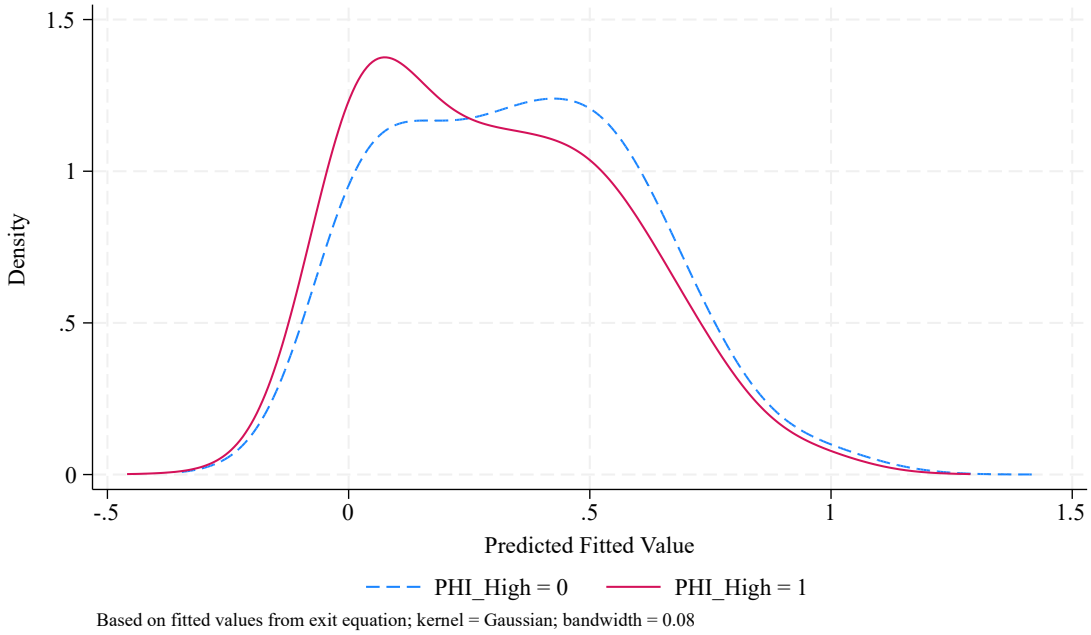

Figure 3: Kernel Density Graph of Predicted Fitted Values by PHI.

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.

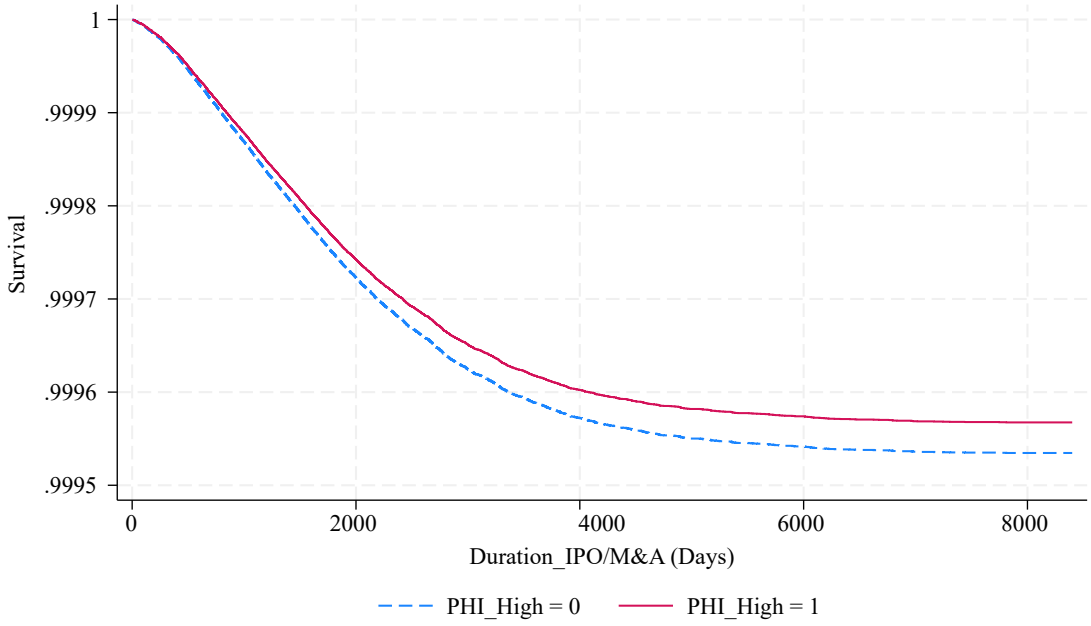

Figure 4: Survival Estimates of VC-Backed Companies by PHI.

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, Panel B contains realized deals, and Panel C presents the yearly distribution of political homophily index along with VC (Company) Republican index. All variable definitions are given in Table A1.

Panel A: Counterfactual Deals

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

Panel B: Realized Deals

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***	0.0035***	0.0031***
	(0.0009)	(0.0009)	(0.0009)
Distance		-0.0021***	-0.0023***
		(0.0001)	(0.0001)
Industry_Fit		0.0028*	0.0051**
		(0.0016)	(0.0022)
Company_Age		-0.0085***	-0.0056**
		(0.0008)	(0.0025)
VC_Partners		0.0020***	0.0084***
		(0.0006)	(0.0016)
Early_Stage		-0.0042***	-0.0142***
		(0.0008)	(0.0050)
Investment Year FE	Yes	Yes	No
VC FE	Yes	Yes	No
Company FE	Yes	Yes	No
Year × VC FE	No	No	Yes
Year × 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***	-0.0021***	-0.0021***	-0.0021***
	(0.0001)	(0.0001)	(0.0001)	(0.0001)
Industry_Fit	0.0028*	0.0028*	0.0028*	0.0028*
	(0.0016)	(0.0016)	(0.0016)	(0.0016)
Company_Age	-0.0085***	-0.0085***	-0.0085***	-0.0085***
	(0.0008)	(0.0008)	(0.0008)	(0.0008)
VC_Partners	0.0020***	0.0019***	0.0020***	0.0021***
	(0.0006)	(0.0006)	(0.0006)	(0.0005)
Early_Stage	-0.0042***	-0.0042***	-0.0042***	-0.0042***
	(0.0008)	(0.0008)	(0.0008)	(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**	0.0092**		
	(0.0039)	(0.0039)		
Treat × Prior (-3)			0.0345	0.0328
			(0.0292)	(0.0291)
Treat × Prior (-2)			0.0379	0.0375
			(0.0263)	(0.0263)
Treat × Post (+1)			0.0322***	0.0346***
			(0.0102)	(0.0101)
Treat × Post (+2)			0.0384*	0.0392**
			(0.0198)	(0.0198)
Treat × Post (+3)			0.0543**	0.0529**
			(0.0247)	(0.0246)
Distance		-0.0040***		-0.0040***
		(0.0002)		(0.0002)
Industry_Fit		0.0014		0.0013
		(0.0030)		(0.0030)
Company_Age		-0.0095***		-0.0095***
		(0.0013)		(0.0013)
VC_Partners		0.0035***		0.0035***
		(0.0010)		(0.0010)
Early_Stage		-0.0127***		-0.0127***
		(0.0015)		(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***	-0.044**	-0.221***	-0.190**
	(0.018)	(0.017)	(0.076)	(0.077)
Distance		0.001		-0.006
		(0.002)		(0.008)
Industry_Fit		0.034		0.287**
		(0.021)		(0.114)
VC_Reputation		-0.049		-0.230
		(0.071)		(0.279)
VC_Partners		0.006		-0.049
		(0.009)		(0.047)
Amount		0.001**		0.004*
		(0.001)		(0.003)
Syndication		0.018***		0.092***
		(0.003)		(0.013)
VC_Age		0.008		-0.099**
		(0.010)		(0.048)
Company_Age		0.011***		0.041**
		(0.004)		(0.019)
Early_Stage		-0.029***		-0.197***
		(0.008)		(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.

Panel A: OLS regressions for the likelihood of successful exits				
	(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
Panel B: Cox hazard model for the time to successful exits				
	(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

Panel C: Baseline regressions including VC_Rep and Company_Rep		
	(1)	(2)
	Exits	Time
PHI	-0.047***	-0.206***
	(0.017)	(0.077)
VC_Rep	0.030	0.091
	(0.026)	(0.110)
Company_Rep	-0.017**	-0.059**
	(0.007)	(0.029)
Distance	0.001	-0.006
	(0.002)	(0.008)
Industry_Fit	0.034	0.290**
	(0.021)	(0.114)
VC_Reputation	-0.047	-0.230
	(0.070)	(0.274)
VC_Partners	0.005	-0.049
	(0.009)	(0.047)
Amount	0.001**	0.004*
	(0.001)	(0.003)
Syndication	0.018***	0.091***
	(0.003)	(0.013)
VC_Age	0.008	-0.098**
	(0.010)	(0.048)
Company_Age	0.011***	0.041**
	(0.004)	(0.019)
Early_Stage	-0.029***	-0.198***
	(0.008)	(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 Bais 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. The dependent variable, *Exits*, is an indicator variable with one if the investment exists via IPO or Mergers and Acquisitions, and zero 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 one if the *PHI* increases as *VC_Rep* decreases, minus one if *PHI* decreases as *VC_Rep* increases, and zero if VC firm does not experience any of the scenarios described. The key independent variable is the interactions between the treatment variable and a *Prior* (*Post*) binary variable, where *Prior* (*Post*) equals one for all the years before (after) the partners change. The control variables are 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**	-0.025**		
	(0.013)	(0.013)		
Treat × Prior (-3)			-0.003	-0.002
			(0.032)	(0.032)
Treat × Prior (-2)			0.023	0.021
			(0.022)	(0.022)
Treat × Post (+1)			-0.005	-0.003
			(0.013)	(0.013)
Treat × Post (+2)			-0.020	-0.018
			(0.014)	(0.014)
Treat × Post (+3)			-0.038**	-0.038**
			(0.016)	(0.016)
Distance		-0.005**		-0.005**
		(0.002)		(0.002)
Industry_Fit		0.041*		0.041*
		(0.021)		(0.021)
VC_Reputation		-0.141		-0.144
		(0.300)		(0.299)
VC_Partners		0.010		0.011
		(0.019)		(0.019)
Amount		0.001		0.001
		(0.001)		(0.001)
Syndication		0.017***		0.017***
		(0.004)		(0.004)
VC_Age		-0.020		-0.020
		(0.016)		(0.015)
Company_Age		0.015**		0.015**
		(0.006)		(0.006)
Early_Stage		-0.024**		-0.024**
		(0.011)		(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: Local Political Environment and Partisan Bias

This Table reports the effect of local political environment on the partisan bias. Models (1) – (2) present the coefficient estimate of OLS regressions, and models (3) – (4) present the coefficient estimate from Cox hazard model. Models 1 and 3 document the analysis that years under the Republican presidencies, and models 2 and 4 document the analysis that uses years under the Democratic presidencies. *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. *PHI* is the partisan similarity between VCs and portfolio companies, and *County_Rep* is the voting shares to Republican party in the latest president election at the county level where the VC firm is headquartered. 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)
	Rep President	Dem President	Rep President	Dem President
	Exits	Exits	Time	Time
PHI	-0.109**	-0.033	-0.600**	-0.168
	(0.049)	(0.051)	(0.291)	(0.256)
County_Rep	-0.813***	0.014	-3.367***	-0.713
	(0.264)	(0.300)	(1.208)	(1.644)
PHI × County_Rep	0.327**	-0.112	1.541*	-0.313
	(0.162)	(0.188)	(0.824)	(0.882)
Distance	-0.000	0.001	-0.013	0.002
	(0.002)	(0.002)	(0.011)	(0.010)
Industry_Fit	0.053*	0.006	0.403**	0.131
	(0.028)	(0.029)	(0.168)	(0.157)
VC_Reputation	-0.051	-0.113	-0.407	-0.548
	(0.083)	(0.105)	(0.323)	(0.603)
VC_Partners	0.011	0.005	-0.003	-0.069
	(0.014)	(0.012)	(0.068)	(0.071)
Amount	0.001	0.002**	0.002	0.006*
	(0.001)	(0.001)	(0.004)	(0.003)
Syndication	0.011***	0.025***	0.073***	0.113***
	(0.003)	(0.003)	(0.019)	(0.015)
VC_Age	-0.017	0.027**	-0.207***	-0.040
	(0.017)	(0.013)	(0.079)	(0.075)
Company_Age	0.003	0.016***	0.002	0.074**
	(0.006)	(0.006)	(0.026)	(0.030)
Early_Stage	-0.035***	-0.026**	-0.281***	-0.136***
	(0.010)	(0.011)	(0.050)	(0.050)
Year x Industry FE	Yes	Yes	Yes	Yes
State FE	Yes	Yes	Yes	Yes
VC FE	Yes	Yes	Yes	Yes
Observations	18,128	18,317	18,709	18,981
Adj. R-squared	0.340	0.225		
Pseudo R-squared			0.043	0.041

Table 10: Closer to the President

This Table tests whether partisan alignment with the incumbent president affects investment success. Model (1) and (2) present the coefficient estimate of OLS regressions and Cox hazard model, respectively. *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. *VC_Pres_Align* (*Company_Pres_Align*) is the partisan alignment between VC firms (companies) and the president. 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)
	Exits	Time
PHI	-0.075***	-0.324***
	(0.021)	(0.103)
Company_Pres_Align	0.012	0.112
	(0.017)	(0.074)
PHI × Company_Pres_Align	-0.030	-0.198*
	(0.028)	(0.119)
VC_Pres_Align	0.001	0.057
	(0.020)	(0.087)
PHI × VC_Pres_Align	0.004	-0.051
	(0.029)	(0.120)
Company_Pres_Align × VC_Pres_Align	-0.021	-0.061
	(0.033)	(0.135)
PHI × Company_Pres_Align × VC_Pres_Align	0.106**	0.401**
	(0.043)	(0.182)
Distance	0.001	-0.005
	(0.002)	(0.008)
Industry_Fit	0.034	0.286**
	(0.021)	(0.114)
VC_Reputation	-0.055	-0.234
	(0.072)	(0.280)
VC_Partners	0.011	-0.033
	(0.010)	(0.047)
Amount	0.001**	0.004*
	(0.001)	(0.003)
Syndication	0.017***	0.090***
	(0.003)	(0.013)
VC_Age	0.009	-0.094*
	(0.010)	(0.048)
Company_Age	0.012***	0.043**
	(0.004)	(0.019)
Early_Stage	-0.028***	-0.195***
	(0.008)	(0.037)
Year x Industry FE	Yes	Yes
State FE	Yes	Yes
VC FE	Yes	Yes
Observations	37,052	37,717
Adj. R-squared	0.279	
Pseudo R-squared		0.034

Table 11: 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 one if the investment exists via IPO or Mergers and Acquisitions, and zero otherwise. *PHI* is the partisan alignment between VC firms and portfolio companies. *Lobby* is a binary variable with one if the company has lobbying activity at the investment year, and zero otherwise. *Contracts* is a binary variable with one if the company receives government contracts at the investment year, and zero 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	-0.046**	-0.036	-0.043**
	(0.104)	(0.018)	(0.067)	(0.018)
Distance	0.008	0.001	0.011	0.000
	(0.009)	(0.002)	(0.007)	(0.002)
Industry_Fit	0.218*	0.034	0.038	0.034
	(0.126)	(0.021)	(0.103)	(0.021)
VC_Reputation	-0.329	-0.042	0.527***	-0.066
	(0.248)	(0.068)	(0.122)	(0.069)
VC_Partners	-0.010	0.007	-0.069**	0.011
	(0.046)	(0.010)	(0.034)	(0.010)
Amount	-0.003**	0.001***	-0.001	0.001***
	(0.002)	(0.001)	(0.002)	(0.001)
Syndication	0.014	0.018***	0.050***	0.016***
	(0.012)	(0.003)	(0.010)	(0.002)
VC_Age	0.172**	0.009	-0.033	0.006
	(0.077)	(0.010)	(0.045)	(0.011)
Company_Age	-0.009	0.012***	-0.043	0.013***
	(0.036)	(0.004)	(0.028)	(0.004)
Early_Stage	0.039	-0.031***	-0.121***	-0.022***
	(0.057)	(0.008)	(0.033)	(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 12: 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 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. *PHI* is the partisan alignment between VC firms and portfolio companies. *Gender_Similarity* is a binary variable with one if the gender distance between a VC and a company is greater than the sample median, and zero 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 one if at least one of the CEOs and anyone of the VC partners share the same ethnicity within eight groups. *Education_Similarity* is a binary variable with one 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. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

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

Table 13: 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 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. *PHI* is the partisan alignment between VC firms and portfolio companies. *PCI_High* is a binary 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). 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	-0.056**	-0.063	-0.329***
	(0.024)	(0.025)	(0.103)	(0.123)
Distance	0.000	-0.000	-0.014	-0.007
	(0.002)	(0.002)	(0.011)	(0.010)
Industry_Fit	0.037	0.018	0.307*	0.151
	(0.031)	(0.029)	(0.158)	(0.173)
VC_Reputation	-0.120*	-0.052	-0.833**	-0.157
	(0.069)	(0.116)	(0.385)	(0.587)
VC_Partners	0.019	0.007	-0.032	-0.099
	(0.013)	(0.017)	(0.068)	(0.091)
Amount	0.001**	0.001	0.005	0.005
	(0.001)	(0.001)	(0.003)	(0.004)
Syndication	0.013***	0.022***	0.075***	0.117***
	(0.004)	(0.003)	(0.019)	(0.014)
VC_Age	-0.006	0.036**	-0.154*	0.025
	(0.015)	(0.016)	(0.081)	(0.088)
Company_Age	0.010*	0.013**	0.034	0.058*
	(0.006)	(0.006)	(0.024)	(0.034)
Early_Stage	-0.031***	-0.024**	-0.238***	-0.131**
	(0.011)	(0.011)	(0.050)	(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 14: 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***	0.289	-0.340***	-0.211***
	(0.059)	(0.219)	(0.127)	(0.060)
Distance	0.006	0.091***	0.024*	-0.000
	(0.005)	(0.022)	(0.012)	(0.005)
Industry_Fit	0.230***	0.352	0.442***	0.191***
	(0.067)	(0.259)	(0.148)	(0.069)
VC_Reputation	0.417***	0.080	0.876***	0.338***
	(0.062)	(0.326)	(0.118)	(0.064)
VC_Partners	0.012	-0.167***	0.069**	0.015
	(0.015)	(0.063)	(0.035)	(0.016)
Amount	0.011***	-0.010	0.030***	0.007***
	(0.002)	(0.011)	(0.003)	(0.002)
Syndication	0.116***	0.206***	0.306***	0.069***
	(0.009)	(0.032)	(0.018)	(0.010)
VC_Age	0.130***	0.160**	0.182***	0.122***
	(0.016)	(0.066)	(0.040)	(0.017)
Company_Age	0.030*	-0.164***	-0.033	0.050***
	(0.016)	(0.054)	(0.035)	(0.016)
Early_Stage	-0.179***	-0.420***	-0.685***	-0.104***
	(0.032)	(0.128)	(0.077)	(0.033)
Investment Year FE	Yes		Yes	
Industry	Yes		Yes	
State	Yes		Yes	
Observations	37,717		37,717	
Pseudo R-sqared	0.220		0.212	

Table 15: 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 one if the VC invested in the company at the startup or seed stage, and zero otherwise. *Round_1st* is a binary variable that takes a value of one if the VC invested in the first round, and zero 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**	0.051***	-0.035**	-0.090**
	(0.013)	(0.012)	(0.014)	(0.039)
Distance	-0.001	0.001	0.004***	0.009***
	(0.001)	(0.001)	(0.001)	(0.003)
Industry_Fit	-0.019	-0.184***	0.001	-0.077
	(0.017)	(0.016)	(0.017)	(0.048)
VC_Reputation	0.014	-0.056	0.007	0.150
	(0.065)	(0.036)	(0.047)	(0.154)
VC_Partners	0.027***	-0.000	-0.006	0.044*
	(0.011)	(0.009)	(0.009)	(0.025)
Amount	-0.004***	0.003***	-0.007***	-0.007***
	(0.000)	(0.001)	(0.001)	(0.002)
VC_Age	-0.061***	-0.067***	0.037***	-0.099***
	(0.011)	(0.010)	(0.011)	(0.025)
Company_Age	-0.285***	-0.208***	0.035***	-0.094***
	(0.006)	(0.004)	(0.004)	(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
Panel A: Dependent Variable	
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.
Time_IPO	The logarithm of the number of days from the investment date to the IPO exit date. For companies without IPO exits, the Time is calculated to the end of 2022.
Time_M&A	The logarithm of the number of days from the investment date to the M&A exit date. For companies without M&A exits, the Time is calculated to the end of 2022.
Time_Liquidation	The logarithm of the number of days from the investment date to the liquidation exit date. For companies without liquidation exits, the Time is calculated to the end of 2022.
Panel B: Independent Variable	
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).

Continued...

Variable	Definition
VC_Rep	The average Republican index of all VC firm's partners.
Company_Rep	The average Republican index of all company's CEOs.
Panel C: Control Variable	
Distance	The natural logarithm of the distance in kilometers between the VC and the company.
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_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***	0.1264***	0.1361***
	(0.0324)	(0.0327)	(0.0382)
Distance		-0.0743***	-0.0901***
		(0.0027)	(0.0033)
Industry_Fit		-0.0150	0.0640
		(0.0378)	(0.0556)
Company_Age		-0.2262***	-0.1402**
		(0.0174)	(0.0562)
VC_Partners		0.0956***	0.4619***
		(0.0175)	(0.0889)
Early_Stage		-0.1630***	-0.3078***
		(0.0247)	(0.1018)
Investment Year FE	Yes	Yes	No
VC FE	Yes	Yes	No
Company FE	Yes	Yes	No
Year × VC FE	No	No	Yes
Year × Company FE	No	No	Yes
Observations	1,296,331	1,296,331	1,296,326
Pseduo 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 one if the VC firm or portfolio company, respectively, is affected by the entry of Sinclair in a given year, and zero 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	-0.0008
	(0.0006)	(0.0008)
Industry_Fit	0.0008	0.0003
	(0.0094)	(0.0103)
VC_Reputation	0.0851***	-0.0217
	(0.0222)	(0.0317)
VC_Partners	0.0213***	-0.0015
	(0.0046)	(0.0054)
Amount	-0.0001	-0.0001
	(0.0002)	(0.0004)
Syndication	-0.0020	-0.0018
	(0.0013)	(0.0021)
VC_Age	0.0114**	-0.0011
	(0.0057)	(0.0055)
Company_Age	-0.0070**	-0.0060
	(0.0029)	(0.0043)
Early_Stage	0.0026	0.0077
	(0.0040)	(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