

Political Divergence and Strategic Alliance Formation

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Abstract

We study how political divergence between firms influences the formation of strategic alliances. We find that greater political distance significantly reduces the likelihood of alliance formation. Economically, a one-unit increase in political distance reduces alliance probability by 4.1%, or 0.95% decline for a one-standard-deviation increase. This effect is particularly pronounced in alliances involving high-technology firms and collaborations that rely on trade secrets, where trust and informal governance are critical. Political divergence also weakens the probability of renewing alliances with prior collaborators. These results remain robust after controlling for corporate cultural similarity, firm characteristics, and industry-year effects, suggesting that political divergence represents an independent dimension of interfirm compatibility. Overall, our findings highlight political distance as a distinct non-market friction that constrains interfirm cooperation, complementing the literature on transaction costs, relational governance, and the real effects of political partisanship.

Keywords: political divergence; strategic alliances; trust; political polarization; corporate collaboration

JEL Classification: G34, G41, D72

1 Introduction

We investigate whether political divergence between firms acts as a friction that impedes the formation of strategic alliances. Political polarization has become an increasingly salient feature of the U.S. economy and has been shown to shape behavior in financial markets and corporate decision-making (Iyengar et al., 2019; Kempf and Tsoutsoura, 2021; Fos, Kempf, and Tsoutsoura, 2025; Pan et al., 2025). Consistent with this, recent work finds that political disagreement affects interfirm transactions such as mergers and acquisitions (Duchin et al., 2024). However, whether political divergence distorts cooperative arrangements that do not involve ownership transfer, such as strategic alliances, remains unexplored. This gap matters because strategic alliances constitute a central channel through which firms coordinate resource allocation, innovation, and knowledge sharing across firm boundaries (Chan et al., 1997). If political divergence impedes alliance formation, it may distort an important mechanism of economic coordination, with implications for real economic efficiency.

We focus on strategic alliances rather than mergers and acquisitions (M&A) to study a distinct channel through which political divergence affects economic cooperation. Duchin et al. (2024) show that political divergence reduces the likelihood of M&A. M&A allow firms to resolve conflicts through the transfer of ownership and control. We instead examine strategic alliances, which, under the property rights theory of the firm (Grossman and Hart, 1986; Robinson, 2008), are incomplete contracts between legally independent firms that do not reallocate residual control rights. Consequently, lacking the hierarchy to manage disagreement, they depend on relational governance (Ring and Van de Ven, 1994; Gulati,

1995). We argue that political divergence can weaken these relational foundations by increasing perceived ideological distance and reducing willingness to cooperate. This suggests that strategic alliances provide a clean setting to isolate the effects of sociopolitical friction on economic cooperation, as such cooperation is not shielded by hierarchical control.

We then examine whether political divergence between firms affects the formation of strategic alliances, which remains an empirical question. On the one hand, the Professionalism Hypothesis posits that corporate executives are rational agents disciplined by fiduciary duties, career concerns, and product and capital market competition (Fama, 1980; Holmström, 1999). Following Becker's (1957) model of discrimination, foregoing value-creating transactions for non-economic reasons is costly and should be penalized in competitive markets. Under this view, managers have incentives to abstract from personal political preferences and to form alliances whenever the expected economic surplus is positive. Consistent with this, Mian, Sufi, and Khoshkhoh (2023) find that while political partisanship heavily distorts households' survey-reported economic expectations, it has little effect on their actual spending decisions, suggesting that economic agents may act rationally when financial stakes are high.

On the other hand, the Political Friction Hypothesis suggests that political divergence may increase the costs of interfirm cooperation. Driven by affective polarization, if political disagreement reduces trust, impairs communication, or complicates the negotiation and enforcement of incomplete contracts, then political divergence may act as a transaction cost that discourages alliance formation (Baker, Gibbons, and Murphy, 2002). Consistent with this view, existing evidence shows that political affiliation shapes the behavior of financial

professionals and firms in economically relevant ways (Hong and Kostovetsky, 2012; Duchin et al., 2024). Taken together, whether political divergence is neutralized by market discipline or instead distorts cooperation by increasing coordination costs is theoretically ambiguous, and thus remains an empirical question.

A challenge in studying political divergence is that firms do not directly disclose political preferences. We mitigate this challenge by proxying for firm-level political preference using the presidential voting behavior of the county in which the firm is headquartered. This approach assumes that firms are influenced by the political values of their local communities, from which they draw executives, employees, and key stakeholders. Accordingly, county-level voting patterns provide a plausible proxy for the sociopolitical environment surrounding corporate decision-making. Then, following Pan et al. (2025), we construct firm-level political preferences using county-level presidential vote shares. For each firm-year, we assign vote shares from the most recent presidential election and define Political Distance between two firms as the sum of the absolute differences in Democratic, Republican, and other-party vote shares across their respective counties.

Our empirical analysis focuses on strategic alliances between U.S. public firms from 1998 to 2024, combining Refinitiv SDC Platinum data with CRSP/Compustat Merged database. To ensure conceptual clarity and measurement precision, we focus on dyadic alliances involving exactly two public firms. This restriction allows for a well-defined bilateral measure of political distance and avoids the ambiguity inherent in multiparty alliances, where asymmetrical resource contributions, heterogeneous objectives and diffuse responsibilities complicate our interpretation (Zeng and Chen, 2003). To examine whether

political divergence affects the likelihood of strategic alliance formation rather than merely the composition of observed alliances, we construct a matched control group of pseudo-alliances. Following Bena and Li (2014), each alliance participant is matched to up to five comparable firms based on industry, firm size, and book-to-market ratio. Comparing realized alliances to these counterfactual pairs allows us to identify whether political divergence truly deters cooperation, rather than simply reflecting partner choice among firms that form alliances.

We find robust evidence that political divergence significantly reduces the likelihood of alliance formation. This result holds after controlling for firm characteristics, deal-level characteristics, geographic proximity, industry-pair-by-year fixed effects, and deal fixed effects, ensuring that the effect captures interfirm distance rather than unilateral partisan preferences. Our baseline linear probability model (LPM) and conditional logit (CLogit) estimates consistently show a negative and significant relationship between political distance and alliance formation. In the LPM, a one-unit increase in political distance reduces alliance probability by 4.1 percentage points, or 0.9 points for a one-standard-deviation increase. The CLogit results imply a one-unit increase lowers the baseline probability from 9.1% to 5.6%, while a one-standard-deviation increase reduces it to 8.2%—a 10% relative decline. These findings are also robust to an alternative identification of political distance based on the metropolitan area with the largest concentration of a firm's employees instead of the firm's headquarters.

To complement our baseline analysis and to further explore the underlying mechanism, we investigate cross-sectional variation in the reliance of alliances on informal governance,

proprietary information, and mutual confidence between partners. We focus on two dimensions. First, we examine alliances involving trade secrets. When collaboration entails the exchange of proprietary knowledge that cannot be fully protected through formal contracts without destroying its value, firms face acute risks of misappropriation (Anton and Yao, 1994; Arora, Fosfuri, and Gambardella, 2001). In such settings, relational governance serves as the primary protection against opportunism. We therefore expect political divergence to have a particularly negative impact on such alliances, as it erodes the trust essential for sharing sensitive, non-contractible information. Second, we focus on alliances in which both participating firms operate in high-technology industries. These industries involve the exchange of tacit knowledge and collaborative innovation, where performance is difficult to specify *ex ante* and costly to verify *ex post* (Gulati, 1995; Kale, Singh, and Perlmutter, 2000). Because such alliances rely primarily on relational governance rather than formal contracts, they are particularly susceptible to frictions between partners. Accordingly, we predict that the negative effect of political divergence will be stronger in these high-technology alliances. Consistent with these expectations, our analysis shows that the adverse effect of political divergence is concentrated in trade-secret alliances and alliances between high-technology firms, suggesting that political alignment facilitates cooperation particularly when informal governance is most crucial.

Next, we investigate whether prior collaborative relationships can mitigate the frictions caused by political divergence. Although repeated partnerships are often thought to build relational trust and reduce information asymmetry (Gulati, 1995), recent evidence suggests that trust is not immutable and can vary depending on interaction dynamics and contextual

conditions (Vanneste, Puranam, and Kretschmer, 2014). Building on this insight, we predict that political divergence will weaken any trust advantages from prior collaboration. Specifically, even well-matched firms may face new sociopolitical frictions that override the economic benefits of their shared history, ultimately reducing the probability that established partners renew their alliances. Consistent with this expectation, our analysis shows that greater political distance significantly reduces the probability that firms renew partnerships with former collaborators. These findings highlight that current political polarization is sufficiently powerful to weaken not only the formation of new alliances but also the continuation of existing interfirm relationships.

To further rule out alternative explanations, we examine whether the documented effect of political divergence merely reflects broader differences in organizational culture rather than distinct political frictions. One concern is that political distance may proxy for general cultural mismatch between firms. We therefore explicitly control for non-political dimensions of corporate culture using the machine-learning-based measure developed by Li et al. (2021). We find that the estimated effect of political distance remains economically and statistically robust after including this control, indicating that political divergence contributes incremental explanatory power beyond standard measures of cultural similarity.

Our paper contributes to a growing literature on the economic consequences of political partisanship and polarization. Prior studies document that political views shape a wide range of unilateral economic decisions, including those of households (Mian, Sufi, and Khoshkhoh, 2023; Meeuwis et al., 2022; Pan et al., 2025), investors (Hong and Kostovetsky, 2012) and financial intermediaries (Kempf and Tsoutsoura, 2021), entrepreneurs (Engelberg et al.,

forthcoming), and corporate executives (Fos, Kempf, and Tsoutsoura, 2025). While these studies focus primarily on individual or unilateral decisions, we examine a bilateral corporate setting in which political divergence is measured directly across two counterparties and enters the joint decision to cooperate. We distinguish our contribution from Duchin et al. (2024), who show that political divergence deters M&A. In contrast, we focus on bilateral corporate cooperation, where alliances depend on relational governance rather than hierarchical control. Our findings show that political polarization constitutes a distinct barrier in this setting, mirroring evidence that political divides decrease performance within fund management teams (Evans et al., 2025), and extending this insight to interfirm cooperation.

We also contribute to the literature on the determinants of strategic alliance formation. Prior research emphasizes economic and technological drivers, including transaction cost minimization (Williamson, 1985; Robinson, 2008), resource complementarity (Mowery, Oxley, and Silverman, 1996), and learning incentives (Powell, Koput, and Smith-Doerr, 1996). In addition to these economic factors, studies have highlighted the importance of social and informational proximity, such as geographic closeness and network embeddedness, in promoting cooperation (Gulati, 1995; Pool, Stoffman, and Yonker, 2015). More recent studies show that cultural similarity further shapes the costs of cooperation (Ahern, Daminelli, and Fracassi, 2015; Li et al., 2021). We extend this literature by identifying political divergence as a salient, non-economic determinant.

2 Data and Sample Construction

2.1 Strategic Alliance Data

We obtain data on strategic alliances from the Refinitiv SDC Platinum database, which contains all announced joint ventures and strategic alliances worldwide. We focus on transactions flagged as “strategic alliance” announced between January 1998 and December 2024. The initial download yields 122,197 unique deal announcements involving 251,353 participating firms.

To incorporate firm-level financial characteristics, we merge the strategic alliance data with the CRSP/Compustat Merged (CCM) database. An alliance participant is considered covered in CCM when its historical CUSIP maps to a PERMCO. The merge is conducted using PERMCO and the most recent fiscal-year financial statement available prior to the announcement date. Specifically, we select the fiscal year-end (datadate) that falls within 365 days before the deal announcement, and when multiple candidates qualify, we retain the one closest to the announcement date. If a direct participant cannot be linked to CCM, we attempt to match its parent company using CCM linkage variables. This procedure yields 41,936 matched deals involving 50,694 firms, of which 38,604 are directly covered and 12,090 are covered through their parent firms.

To focus our analysis on the U.S. setting, we require that at least one alliance participant be a public firm incorporated in the United States. We identify U.S. incorporation using Compustat’s current ISO country code for headquarters (loc = “USA”). Applying this restriction reduces our sample to 33,196 deals involving 38,763 U.S. firms. We further exclude financial firms (SIC 6000-6999) and require non-missing values for total assets and book-to-market ratios, leaving 27,794 alliances involving 31,433 U.S. firms.

2.2 Political Preference Measures

We proxy for a firm's political preference using the presidential voting behavior of the county in which the firm is headquartered. This approach rests on the idea that local voting behavior reflects the prevailing social and ideological climate surrounding key decision-makers. Local political preferences both mirror and shape the attitudes of employees, managers, and community stakeholders, as well as the broader social and regulatory norms that firms are exposed to. Accordingly, county-level voting outcomes provide a meaningful, geographically grounded measure of the political preferences that may influence corporate decision-making.

Specifically, we obtain county-level presidential election results from the MIT Election Data and Science Lab, which reports vote shares for Democratic, Republican, and other presidential candidates in each U.S. presidential election from 2000 to 2020. “Other” candidates consist of Green, Libertarian, and independent parties. We link firms to these political data by mapping each firm's ZIP code (from Compustat) to its corresponding county using the U.S. Department of Housing and Urban Development’s ZIP-to-county crosswalk. For each firm-year, we assign the vote shares from the most recent presidential election and apply those values to the subsequent four-year period. For example, vote shares from the 2000 election are applied to the 2001-2004 period.

To ensure consistent data coverage, we further require non-missing voting data, leaving 23,567 deals involving 26,793 U.S. firms in our sample. We then use these data to construct the measure of political distance between alliance participants. Following Pan et al. (2025), we define *Political Distance* as the sum of the absolute differences in county-level vote shares for Democratic, Republican, and other candidates between the two firms. A higher

value of *Political Distance* indicates greater ideological divergence between alliance partners.

2.3 Sample Construction

We construct our sample by merging the strategic alliance, political preference, and financial datasets at the deal level. To ensure conceptual clarity and measurement precision in Political Distance, we restrict the sample to dyadic alliances, defined as alliances involving exactly two U.S. public firms. As noted by Zeng and Chen (2003), multiparty alliances often entail heterogeneous objectives, asymmetrical resource contributions, and diffuse responsibilities, all of which complicate the construction of pairwise measures and weaken explanatory power in empirical settings.

Our two-participant requirement is applied after merging with the CCM database. In other words, if a deal originally involves three participants, where one is a private firm and the other two are public firms with available GVKEY identifiers, we treat this deal as a two-participant alliance in our process. This definition ensures that each observation corresponds to a well-defined pair of public firms for which both political and financial data are available. By focusing on these two-participant alliances, we improve the comparability of the political divergence measure and ensure consistency in deal-level identification.

After imposing the two-participant criterion, our sample contains 3,058 strategic alliances. We then require non-missing values for all control variables used in our baseline regressions, leaving 2,715 deals involving 5,430 U.S. firms. Among these, 68 deals are excluded because the two participant firms are parent-subsidiary pairs, which could otherwise inflate within-group similarity and bias estimates of political divergence. Our final sample therefore consists of 2,647 strategic alliances involving 5,294 U.S. firms, which form the

basis for the empirical analysis.

2.4 Control Group Construction

To examine whether political divergence affects the likelihood of alliance formation, we construct a matched control group of pseudo-alliances, which are firm pairs that did not engage in any strategic alliances but could plausibly have done so. For each alliance participant, we identify up to five pseudo-partner firms that satisfy two conditions: (1) the potential partner must not have participated in any alliance during the three years preceding the announcement year t (that is, between $t-3$ and t), and (2) they are U.S. public firms covered by the CRSP/Compustat database, with non-missing political, financial data, as well as all control variables used in our baseline regression.

Following Bena and Li (2014) and Duchin et al. (2024), our first matching method constructs control samples based on industry, firm size (book assets), and book-to-market ratio. For each alliance participant, we identify potential pseudo-partners within the same year ($t-1$) and within the same industry as defined by the Standard Industrial Classification (SIC) codes. We begin by searching for potential matches at the four-digit SIC level. If fewer than five suitable candidates are available at that level, we sequentially expand our search to broader classifications, moving to the three-digit, two-digit, and finally one-digit SIC levels. We then estimate propensity scores based on firm size(book asset) and book-to-market ratio and select up to five nearest-neighbor matches with replacement. This procedure yields 26,365 pseudo-firms corresponding to the 2,647 announced alliances in our test sample, with nearly 80% of alliance participants matched at the four-digit SIC level.

Our second matching method is based on industry and firm size, following Li et al.

(2019). Similar to the first approach, we conduct the matching within the same industry and fiscal year, applying the same SIC hierarchy starting from the four-digit level and expanding as necessary. Instead of estimating propensity scores, we directly select up to five control firms whose total assets are closest to those of the alliance participant, subject to the requirement that each control firm's total assets fall between 50% and 150% of the alliance firm's assets.

We base our subsequent tests on the sample constructed using the first approach (industry-year propensity score matching method), which serves as our primary specification for identifying pseudo-alliances.

2.5 Sample Characteristics and Comparison: Treatment vs. Control Pairs

We begin by comparing announced alliances (treatment group) with their matched pseudo-pairs (control group) along the dimension of political divergence. Figure 1 plots the distribution of *Political Distance* for the two groups. The figure shows a clear leftward shift for actual alliances relative to pseudo-matches, indicating that actual alliance partners are more likely to come from politically similar regions. This descriptive contrast provides initial support for our main hypothesis that lower political divergence increases alliance propensity.

< INSERT FIGURE 1 >

Figure 2 plots the four-year moving average of *Political Distance* for announced alliances and matched pseudo-pairs across presidential election cycles. Throughout the sample period, announced alliances consistently exhibit lower levels of political divergence relative to hypothetical firm pairs, and the non-overlapping confidence intervals for most years highlight the statistical robustness of this difference. In addition, both series exhibit

similar year-to-year fluctuations, with a modest decline around the 2008 financial crisis and peaks near 2004 and 2016. This parallel movement reinforces the validity of our matching design, indicating that the observed differences reflect cross-sectional variation in political divergence rather than temporal trends.

< INSERT FIGURE 2 >

We next turn to Table 1, which summarizes the distribution of *Political Distance* for announced alliances. Columns (2)-(6) report the proportion of alliance pairs falling into five predefined intervals of Political Distance, ranging from [0, 0.30] to (1.20, 1.50], computed using the total deal counts shown in Column (7). Columns (8) and (9) present the χ^2 statistics and corresponding p-values, which evaluate whether the distribution of Political Distance differs significantly between announced deals and pseudo-matched deals. This table shows that alliance formation is heavily concentrated among politically similar firms: nearly 90 percent of alliances occur between partners with a political distance below 0.60. This pattern is especially pronounced during the 2000, 2012 and 2016 election cycles, consistent with moments of heightened national tension and polarization (e.g., the contested 2000 election recount; Pew Research Center, 2014¹). Overall, Table 1 provides clear support for our central hypothesis: firms exhibit a strong and statistically significant preference for forming strategic alliances with politically similar partners.

< INSERT TABLE 1 >

¹ The 2000 presidential election, particularly the disputed Florida recount and subsequent Supreme Court ruling (Bush v. Gore), is often cited as a landmark event that revealed increasing partisan division in the United States. Pew Research Center (2014) is an independent, nonpartisan research institution that tracks long-term trends in U.S. political attitudes and political polarization.

3 Research Design

To examine the impact of political divergence on the formation of strategic alliances, we use a deal-level matched sample design. Each observed alliance (treatment group) is paired with comparable pseudo-alliances (control group) using industry-year propensity score matching method. This method selects pseudo-partners whose firm characteristics (industry, firm size and book-to-market ratio) most closely resemble those of the actual alliance participants.

We estimate the following regression specification to test our main hypothesis:

$$Alliance_{ij,t} = \beta_0 + \beta_1 Political\ Distance_{ij,t-1} + \gamma' X_{ij,t-1} + FEs + \varepsilon_{ij,t} \quad (1)$$

where the dependent variable, $Alliance_{ij,t}$ is an indicator variable that equals one if firms i and firm j announce a strategic alliance in year t , and zero otherwise.

Following Pan et al. (2025), the key independent variable, $Political\ Distance_{ij,t}$, measures the political divergence between the two firms. It is computed as the sum of absolute differences in county-level vote shares for Democratic, Republican, and other presidential candidates, based on data from the MIT Election Data and Science Lab. Because presidential elections occur every four years, we assign election results to the subsequent four-year period. For example, if a deal is announced in 2005 or 2007, its political divergence measure is based on the 2004 voting data. This timing convention ensures that each observation reflects the most recent political environment preceding the deal announcement. A larger value of $Political\ Distance$ reflects greater political divergence between the county where the alliance partners' headquarters are located, and thus captures a higher degree of political divergence within the alliance.

Following Duchin et al. (2024), $X_{ij,t-1}$ includes both firm-level and deal-level characteristics measured at the fiscal year-end prior to the announcement. At the deal level, we control for the *HQ Distance* (the geographic distance between the two firms' headquarters) to account for coordination frictions and information costs, *Similarity* (product market overlap measured by the cosine similarity of firms' SIC codes from Hoberg and Phillips (2010, 2016)) to capture potential complementation in operations, and *Democratic Affiliation* (the Democratic vote share in each firm's headquarter county) to isolate the effect of political divergence from the underlying local partisanship. At the firm level, we control for *Book Asset* (log book assets), *Book-to-Market* ratio, *Book Leverage*, *Return on Assets*, *Sales Growth*, *Cash Ratio*, and *Past Return*. Because asymmetries in fundamentals might influence partner selection, we distinguish the two firms in each pair into a focal firm and a partner firm. The focal firm is defined as the one with the larger book assets. All continuous variables are winsorized at the 1st and 99th percentiles. All variables are defined in Appendix A.

Before turning to the regression analysis, we first present summary statistics for all variables used in our empirical tests. Table 2 reports firm-level and deal-level characteristics for both announced alliances and their matched pseudo-pairs, under the two alternative matching procedures described earlier. The last two columns present t-tests and Wilcoxon rank-sum tests to compare differences between the two groups. Panel A indicate that our matching procedure successfully creates a control group that is broadly comparable to the treatment group in almost firm-level financial characteristics. Panel B summarizes deal-level variables and shows that announced alliances have significantly lower *Political Distance* than control deals, consistent with our main hypotheses.

3.1 Baseline Regression Results

We investigate whether political divergence lower the likelihood of alliance formation. Table 3 presents the baseline regression results using the matched sample of announced and pseudo-deals. It reports estimates based on the industry-year propensity score matching method. This table presents LPM regression results on the effect of political distance on strategic alliance formation in Columns (1)-(4) and CLogit results in Column (5). Column (1) includes only Political Distance; Column (2) further adds Democratic Affiliation; Column (3) incorporates the full set of control variables as well as industry-pair-by-year fixed effects; and Column (4) additionally includes deal fixed effects. Column (5) reports CLogit estimates with deal fixed effects.

Across all specifications (Column 1-5), we find a consistent and statistically significant negative association between *Political Distance* and the likelihood of alliance formation, with all estimates significant at the 1% level. Using the fully specified LPM model in Column (4), a one-unit increase in *Political Distance* is associated with a 4.1% decrease in the likelihood of an alliance announcement, or a 0.95% decline for a one-standard-deviation increase. In the CLogit specification (Column 5), the likelihood of alliance formation decrease by 40.4% for a one-unit increase in *Political Distance* and by 11.3% for a one-standard-deviation increase.

< INSERT TABLE 3 >

As discussed in Section II, our sample construction links each alliance participant to the CCM database, and some of firms are covered indirectly through their parent entities. To verify that these indirect linkages do not drive our main findings, we re-estimate the baseline model after excluding all parent-linked observations. The results, reported in Appendix A.1,

are consistent with our baseline findings: Political Distance exert a significant negative effect on the likelihood of alliance formation, supporting the robustness of our main conclusions.

3.2 Heterogeneity - Trade Secret & High-Technology

To further explore the mechanisms behind our main results, we examine whether the effect of political divergence varies across alliances that depend more heavily on information sharing and innovation. We focus on two types of deals: trade secret–related alliances and high-technology alliances. We predict that the adverse effect of political divergence on alliance formation will be more pronounced in these alliances. Because in both contexts, mutual trust and the exchange of proprietary knowledge play a particularly important role in determining collaborative success (Dyer and Chu, 2003; Kale, Singh, and Perlmutter, 2000).

We first examine trade secret-related alliances. A deal is classified as trade-secret-related when both participating firms disclose trade-secret information in their annual 10-K filings for the fiscal year preceding the alliance announcement. We identify such disclosures using keyword searches for “trade_secret”, “trade_secretcy”. This measure captures alliances where both partners face rising concerns over proprietary information and confidentiality. Columns (1)-(2) of Table 4 report results based on *Trade Secret*. The estimated coefficient on *Political Distance* is significantly negative in both groups, though its magnitude differs. It is -0.679 and significant at the 1% level for trade-secret-related deals, compared with -0.494 and significant at the 5 % level for other deals. To formally assess whether these effects differ across subgroups, we conduct post-estimation tests based on seemingly unrelated estimation (SUEST). The estimated coefficient difference is -0.185 ($p = 0.524$). Although the difference is not statistically significant, the point estimates indicate a larger economic effect for

trade-secret-related deals. Specifically, a one-unit increase in political divergence is associated with about a 49% decrease in the likelihood of alliance formation among trade-secret-related firms, compared with about a 39% decrease among other firms. This pattern suggests that political divergence may be particularly consequential when alliances involve proprietary information, even though we cannot statistically distinguish the magnitudes across these two groups. By contrast, when we turn to high-technology alliances, where cooperation relies more heavily on tacit knowledge, the magnitude of the effect becomes both economically and statistically pronounced.

Next, we examine high-technology alliances. Columns (3)-(4) focus on *High-Technology* alliances, defined as deals in which both firms operate in high-tech industries according to the 3-digit SIC classification of Francis and Schipper (1999)². For high-tech deals, the coefficient on *Political Distance* is -0.938, significant at the 1% level. For non-high-tech deals, the coefficient is -0.274, significant at the 10% level. We again apply SUEST to formally test for coefficient differences across subgroups. The estimated difference of -0.664 ($p=0.005$) suggests that the negative association between political divergence and alliance formation is about 34.9% stronger among high-technology firms. Specifically, a one-unit increase in *Political Distance* reduces the likelihood of alliance formation by 60.9% in high-tech deals, compared with 24.0% in other deals. Consistent with our expectations, such collaborations depend more heavily on mutual trust, tacit knowledge exchange, and joint innovation, making them particularly vulnerable to political misalignment.

² Following Francis and Schipper (1999), a firm is categorized as high-tech if its SIC code falls within “83, 357, 360, 361, 362, 363, 364, 365, 366, 367, 481, 737, 873”.

Overall, the evidence in Table 4 points to a common mechanism. Political divergence weakens the foundation of trust and information exchange between firms, reducing their willingness to form alliances in knowledge-intensive and innovation-driven settings.

< INSERT TABLE 4 >

3.3 Political Distance and Repeated Alliances

Building on the cross-sectional evidence in the previous section, we next examine whether the adverse effect of political divergence persists in settings where firms have established prior collaborative relationships. While repeated partnerships often foster relational trust (Gulati, 1995), trust is not guaranteed to grow with relationship duration, as it depends on contextual moderators such as partner identification and relationship value (Vanneste, Puranam, and Kretschmer, 2014). We expect that political divergence, by weakening identification and raising perceived risks, thereby limiting the trust benefits of prior collaboration and reducing the likelihood of repeated partnerships.

Table 5 presents regression results where the dependent variable, *Repeated*, equals one if the deal represents a repeated partnership between the same two firms and zero otherwise. A deal is considered as a repeated alliance if both firms previously formed a strategic alliance or joint venture with one another at any time between 1990 and the year before the current deal³. Column (1) presents estimates from the CLogit model, while Column (2) reports the LPM results. The coefficient on *Political Distance* is -0.814 in the CLogit specification and -0.100 in the LPM model. Both estimates are negative and statistically significant at the 1% level. These results show that even when firms share prior collaborative experience, greater

³ We identify repeated partnerships using historical alliance records from the Refinitiv SDC Platinum database.

political divergence continues to impede the formation of subsequent alliances.

Overall, the findings suggest that political divergence imposes persistent frictions that undermine mutual trust and reduce the willingness to sustain cooperative relationships. Political divergence not only discourages initial alliance formation but also weakens the durability of inter-firm cooperation once established.

< INSERT TABLE 5 >

3.4 *Political Distance vs. Cultural Distance*

A potential concern is that the effect of political divergence may simply capture broader cultural or organizational differences, rather than political misalignment itself. To address this, we follow Duchin et al. (2024) and incorporate a firm-level measure of *Cultural Distance* developed by Li et al. (2021). Specifically, Li et al. (2021) construct five dimensions of corporate culture-*Innovation*, *Integrity*, *Quality*, *Respect*, and *Teamwork*. Following Duchin et al. (2024), we define *Cultural Distance* as the sum of the absolute differences in these five dimensions between the two alliance partners. We restrict the sample to deals from Table 3 in which both alliance firms have available corporate culture data.

Table 6 presents CLogit regression results examining the effect of *Political Distance* on the likelihood of strategic alliance formation. In Column 1, the coefficient on *Political Distance* is -0.316 and significant at the 5% level, indicating a negative association with alliance formation. Column 2 reports the results for *Cultural Distance*, which has a coefficient of -0.010 but is not statistically significant in this subsample. When both variables are included in Column 3, the effect of *Political Distance* remains negative and statistically significant at 5% level, while the coefficient on *Cultural Distance* remains statistically

insignificant and stable in magnitude. These results suggest that the two measures capture distinct dimensions of interfirm differences rather than overlapping. *Political Distance* is an independent and economically meaningful dimension of interfirm compatibility, distinct from general similarities in corporate culture.

< INSERT TABLE 6 >

3.5 Alternative Identification: Employee-Based Political Distance

Our baseline analysis proxies for firm-level political preferences using the voting behavior of the county where a firm's headquarters is located. A potential concern with this approach is that headquarters location may not fully capture the political environment relevant for the firm's broader operations, particularly for firms with geographically dispersed workforces or those incorporated in jurisdictions that differ from their main operational centers. To the extent that political frictions operate through the rank-and-file employees or the firm's internal environment, reliance on headquarters-based measures may introduce measurement error.

To address this concern, we construct an alternative measure of political distance based on the geographic distribution of the firm's employees. We utilize employee-level workplace data from Revelio Labs to identify the Metropolitan Statistical Area (MSA) that holds the largest share of each firm's workforce. We then calculate political preferences by aggregating presidential election votes from all constituent counties within that primary MSA. This allows us to define an employee-based Political Distance, measured as the sum of the absolute differences in Democratic, Republican, and other-party vote shares between the operational MSAs of the two alliance partners.

Using employee-level workplace information from Revelio Labs, we identify each firm's primary operational location as the Metropolitan Statistical Area (MSA) that accounts for the largest share of its workforce. We then compute MSA-level political vote shares by dividing the number of votes cast for the Democratic candidate, the Republican candidate, and other parties, respectively, by the total number of presidential votes cast within the MSA. We define employee-based *Political Distance* between two firms as the sum of the absolute differences in these vote shares across their respective operational MSAs.

We re-estimate our baseline specifications (Table 3) using this alternative measure. Across all model specifications, the coefficient on *Political Distance* remains negative and statistically significant. Specifically, in the LPM estimates (Columns 1-4), the coefficients range from -0.103 to -0.082, all significant at the 1% level. In the CLogit specification (Column 5), the coefficient is -0.595, significant at the 5% level.⁴

These results suggest that our findings are not driven by the particular choice of headquarters location and are robust to alternative constructions of firm-level political exposure. More broadly, they indicate that the frictions associated with political divergence persist when political preferences are measured at the level of firms' human capital and operational footprint.

< INSERT TABLE 7 >

4 Conclusion

⁴ In untabulated analyses, we use employee-level job category data from Revelio Labs to construct an alternative measure of *Political Distance* based on the MSA holding the largest number of employees in operations, engineering, or scientific functions. The results are consistent with the findings reported here.

Using a comprehensive sample of U.S. public firms, we document a robust negative relationship between political divergence and the formation of strategic alliances. Specifically, we find that firms are significantly less likely to form partnerships with politically distant peer firms, even after controlling for economic synergies, geographic proximity, and general corporate cultural similarity. Consistent with the idea that political divergence undermines the relational foundations required for incomplete contracts, this negative effect is concentrated in alliances involving trade secrets and high-technology industries, where relational governance is particularly important. Furthermore, our analysis of alliance renewals shows that political polarization constitutes a persistent friction: it significantly reduces the likelihood that established partners continue their collaboration, suggesting that political divides can attenuate the benefits of trust accumulated through prior interactions.

Our findings have important implications for understanding the boundaries of the firm in a polarized economy. While prior research shows that political divergence deters M&A (Duchin et al., 2024), our study highlights a distinct mechanism in the context of strategic alliances. Unlike M&A, where ownership integration allows firms to resolve conflicts through hierarchical control, alliances rely on voluntary cooperation and ongoing negotiation between independent parties. Our results suggest that in the absence of formal ownership, political alignment functions as an informal governance mechanism that facilitates coordination and reduces relational frictions. Consequently, as political polarization intensifies, the cost of organizing economic activity across firm boundaries may increase, potentially leading firms to move away from collaborative arrangements and toward more closed or politically similar networks.

More broadly, our study sheds light on the non-market costs of political polarization. By showing that political frictions distort partner selection and weaken existing interfirm ties, we provide evidence that political polarization spills over from the political environment into corporate decision-making, with real consequences for innovation and resource allocation. If firms forgo value-creating alliances due to political mismatch, the aggregate economy may suffer from a loss of efficiency and a reduction in knowledge spillovers. In this sense, our findings suggest that rising political divergence is not only a social phenomenon but also an economic force that reshapes the structure of U.S. corporate networks.

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Appendix A: Variable Definitions

Variables	Definitions
Democratic Affiliation	Following Pan et al.(2024), it is the proportion of votes for Democratic presidential candidates out of the total votes in a county during the U.S. presidential elections.
Political Distance	The sum of the absolute differences between two counties' vote shares for Democratic, Republican, and other parties (including Green, Libertarian, and others) during the most recent U.S. presidential elections, following Pan et al. (2024).
Alliance	An indicator variable equal to one if the firm-pair has announced a deal, and zero if the pair is a pseudo-match.
HQ Distance	The geographical distance, measured in hundreds of miles, between the headquarters ZIP codes of the two alliance participants, winsorized at the 1st and 99th percentiles.
Similarity	An indicator variable equal to one if the firm-pair is classified as having similar products according to Hoberg and Phillips (2010, 2016), and zero otherwise.
Cultural Distance	Following Duchin et al. (2024), it is the sum of the absolute differences in <i>Corporate Culture</i> scores between the deal participants, based on five dimensions— <i>Innovation, Integrity, Quality, Respect, and Teamwork</i> —as measured by Li et al. (2020).
Firm Financial Variables (All variables winsorized at the 1st and 99th percentiles):	
Book Assets	The natural logarithm of total assets (in millions of dollars) measured in the year prior to the announcement year t .
Book to Market	The ratio of book equity to market equity, measured in the year prior to the announcement year t .
Sales Growth	The annual percentage growth rate in sales, measured in the year prior to the announcement year t .
Book Leverage	The ratio of book liabilities to book assets, measured in the year prior to the announcement year t .
Return on Assets	The ratio of net income to book assets, measured in the year prior to the announcement year t .
Cash Ratio	The ratio of cash and cash equivalents to book assets, measured in the year prior to the announcement year t .
Past Return	The stock return compounded over the [-14, -3] month window relative to the deal announcement month (month 0), requiring at least 3 months of returns to be available.

Appendix A.1: Robustness Check: Excluding Firms Covered by Compustat/CRSP via Parent Firms

This table presents the results of conditional logistics regressions on the effect of political distance on strategic alliance formation by excluding firms that are covered by Compustat/CRSP through their parent firms from the sample used in Table 3, as a robustness check. The dependent variable is *Alliance*, which equals one for the actual alliance deals and zero for pseudo-deals. We control for deal fixed effects and report z-scores in parentheses. All variables are defined in Appendix A. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

Variables	(1) <i>Alliance</i>
Political Distance	-0.547*** (-3.79)
Democratic Affiliation_Focal	0.525 (1.32)
Democratic Affiliation_Partner	0.457* (1.89)
HQ Distance	-0.006*** (-2.83)
Similarity	-0.019 (-0.23)
Book Assets_Focal	1.331*** (22.76)
Book Assets_Partner	0.796*** (24.55)
Book to Market_Focal	-0.930*** (-4.25)
Book to Market_Partner	-0.754*** (-6.16)
Book Leverage_Focal	-0.031 (-0.13)
Book Leverage_Partner	0.372*** (3.05)
Return on Assets_Focal	-0.330 (-1.14)
Return on Assets_Partner	-0.602*** (-6.34)
Sales Growth_Focal	-0.026 (-0.22)
Sales Growth_Partner	0.032 (0.90)
Cash Ratio_Focal	1.473***

	(4.95)
Cash Ratio_Partner	1.887***
	(11.80)
Past Return_Focal	-0.001
	(-0.01)
Past Return_Partner	0.027
	(0.61)
Deal FEs?	Yes
Observations	19,535
Pseudo R ²	0.272

Figure 1: Distribution of Strategic Alliances by Political Distance

This figure illustrates the percentage of announced vs. hypothetical strategic alliances across different ranges of *Political Distance*. The orange bars on the left represent the distribution of the 2,647 announced deals in the sample, while the gray bars on the right represent the hypothetical distribution based on all pseudo-matched firm pair. To create the hypothetical distribution of deals, we follow Bena and Li (2014) by matching each deal participant with up to five pseudo-partners from the same industry based on firm size and book-to-market ratio. All variables are defined in Appendix A.

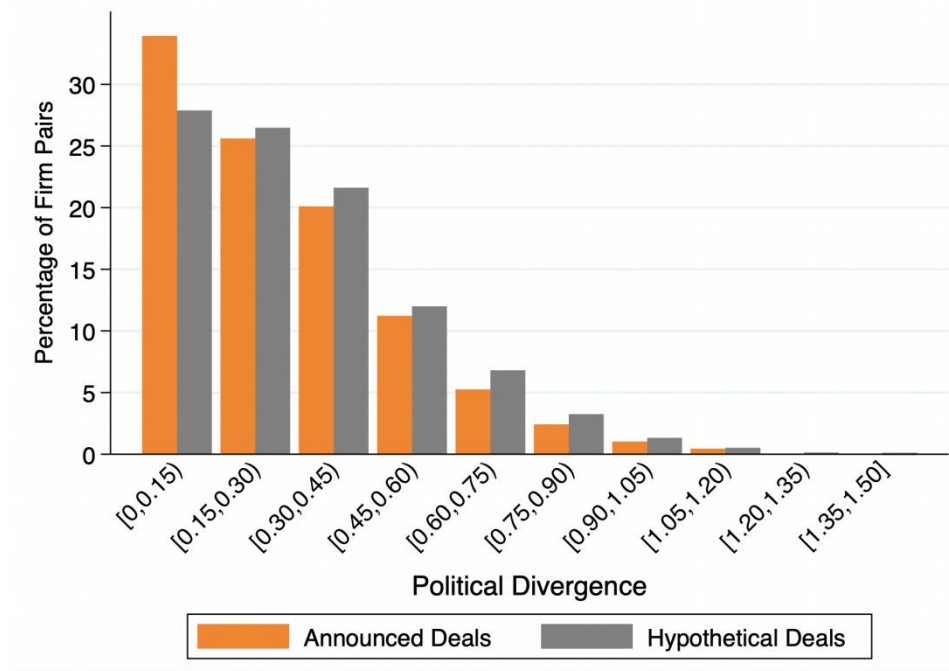


Figure 2: Four-Year Moving Average of Political Distance: Announced vs. Hypothetical Deals

This figure presents the four-year moving average of *Political Distance* for both announced and hypothetical deals. Hypothetical deals are constructed using all pseudo-matched firm pairs, matched based on industry, size, and book-to-market ratio within each presidential election cycle. All variables are defined in Appendix A.

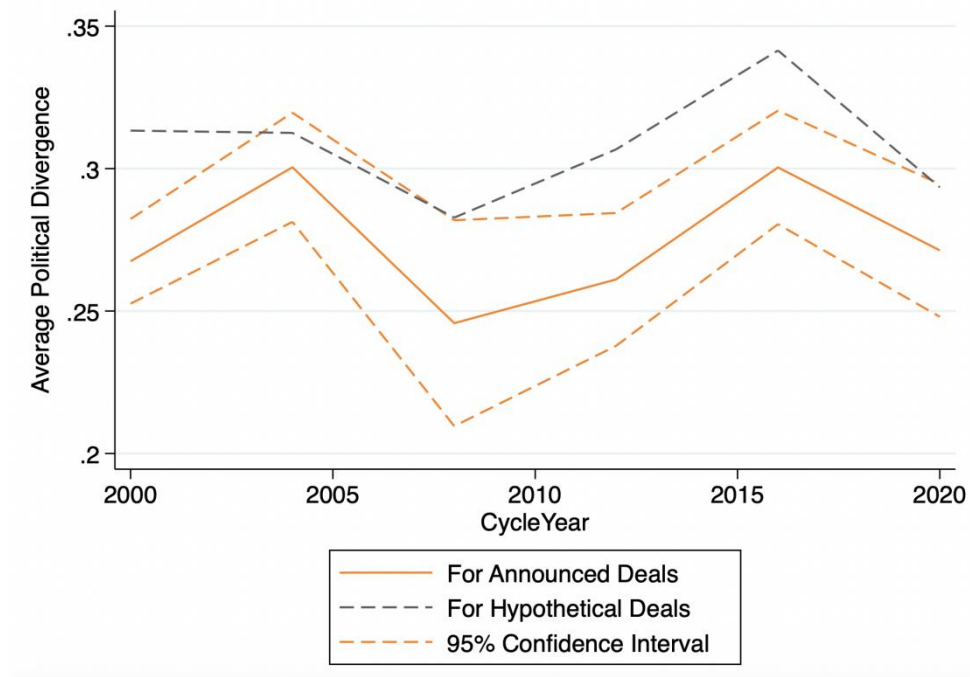


Table 1: Distribution of Strategic Alliances by Political Distance Over Election Cycles

This table presents the distribution of strategic alliances across different levels of *Political Distance* by election cycles. We use a χ^2 test to evaluate whether the distribution of *Political Distance* differs significantly between announced deals and pseudo-matched deals. P-values are calculated with 4 degrees of freedom. All variables are defined in the Appendix A.

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	
Cycle	Political Distance					(1.20,1.5 0]	N	χ^2	<i>p</i> -value
Ending Year	[0,0.30]	(0.30,0.60]	(0.60,0.90]	(0.90,1.20]					
2000	60.00%	32.87%	6.24%	0.89%	0.00%	785	21.19	0.00	
2004	52.75%	36.27%	9.41%	1.57%	0.00%	510	3.65	0.46	
2008	66.42%	26.28%	5.84%	1.46%	0.00%	137	2.74	0.60	
2012	64.11%	28.92%	6.27%	0.70%	0.00%	287	9.17	0.06	
2016	58.20%	29.63%	9.88%	2.29%	0.00%	567	11.66	0.02	
2020	63.99%	27.42%	6.65%	1.94%	0.00%	361	4.40	0.22	
Overall	59.54%	31.32%	7.67%	1.47%	0.00%	2647	35.62	0.00	

Table 2: Descriptive Statistics for Matching Firm Sample

This table reports summary statistics for firm and deal characteristics of the matching sample. Panel A presents firm-level characteristics for alliance firms and their matched control firms. Panel B presents deal-level characteristics for announced deals and matched control deals.

Panel A Firm Characteristics

	<u>Alliance Firms</u>			<u>Control Firms</u>			t-test	Wilcoxon
	Mean	S.D.	Median	Mean	S.D.	Median		
Democratic Affiliation	0.610	0.136	0.615	0.578	0.140	0.579	(0.00)	(0.00)
Book to Market	0.370	0.413	0.290	0.313	0.483	0.282	(0.00)	(0.00)
Book Assets	8.233	2.557	8.429	6.410	1.905	6.512	(0.00)	(0.00)
Book Leverage	0.546	0.265	0.544	0.597	0.392	0.537	(0.00)	(0.03)
Return on Assets	-0.038	0.260	0.037	-0.081	0.369	0.030	(0.00)	(0.00)
Cash Ratio	0.264	0.231	0.186	0.255	0.240	0.182	(0.01)	(0.00)
Past Return	0.137	0.572	0.076	0.172	0.684	0.069	(0.00)	(0.48)
Sales Growth	0.161	0.466	0.083	0.197	0.633	0.091	(0.00)	(0.02)
Number of observations	5,294			26,365				

Panel B Deal Characteristics

	<u>Announced Deals</u>			<u>Control Deals</u>			t-test	Wilcoxon
	Mean	S.D.	Median	Mean	S.D.	Median		
Political Distance	0.280	0.222	0.238	0.314	0.231	0.275	(0.00)	(0.00)
HQ Distance	19.049	14.561	16.278	19.936	13.885	17.565	(0.00)	(0.00)
Similarity	0.367	0.482	0.000	0.324	0.468	0.000	(0.00)	(0.00)
Number of observations	2,647			26,365				

Table 3: The Effect of Political Distance on Strategic Alliance Formation

This table presents LPM regression results regression results on the effect of political distance on strategic alliance formation in Column (1)-(4), and conditional logistics results in Columns (5). Column (1) only controls *Political Distance*. Column (2) further controls for Democratic Affiliation, while Column (3) adds other control variables as well as industry-pair-by-year fixed effects. Column (4) further includes deal fixed effects. Column (5) includes deal-fixed effect. The dependent variable is Alliance, which equals one for the actual alliance deals and zero for pseudo-deals. In Panel A, we follow Bena and Li (2014) to match each deal participant with up to five pseudo-partners from the same industry based on size and book-to-market ratio.

	(1)	(2)	(3)	(4)	(5)
		LPM			CLogit
Variables	Alliance	Alliance	Alliance	Alliance	Alliance
Political Distance	-0.054*** (-7.36)	-0.048*** (-6.46)	-0.044*** (-5.35)	-0.041*** (-4.90)	-0.518*** (-4.42)
Democratic Affiliation_Focal		0.070*** (5.67)	0.037** (2.33)	0.037** (2.25)	0.820** (2.51)
Democratic Affiliation_Partner		0.040*** (3.27)	0.065*** (4.16)	0.075*** (4.57)	0.748*** (3.81)
HQ Distance			-0.000*** (-3.30)	-0.000*** (-2.73)	-0.005*** (-2.71)
Similarity			0.002 (0.41)	0.002 (0.40)	-0.003 (-0.04)
Book Assets_Focal			0.041*** (39.11)	0.053*** (46.20)	1.329*** (27.68)
Book Assets_Partner			0.040*** (27.95)	0.067*** (37.75)	0.778*** (30.63)
Book to Market _Focal			-0.003 (-0.49)	-0.022*** (-3.18)	-0.811*** (-5.06)
Book to Market _Partner			0.002 (0.31)	-0.048*** (-7.11)	-0.727*** (-7.59)
Book Leverage_Focal			-0.008 (-0.93)	0.006 (0.74)	0.034 (0.17)
Book Leverage _Partner			0.000 (0.00)	0.018** (2.19)	0.166 (1.62)
Return on Assets_Focal			-0.055***	-0.047***	-0.300

			(-5.44)	(-4.43)	(-1.14)
Return on			-0.069***	-0.069***	-0.719***
Assets_Partner					
			(-10.99)	(-10.17)	(-9.02)
Sales Growth_Focal			-0.007	-0.009	-0.078
			(-1.38)	(-1.61)	(-0.75)
Sales Growth_Partner			0.001	0.004	0.033
			(0.33)	(1.32)	(1.11)
Cash Ratio_Focal			0.058***	0.053***	1.338***
			(4.87)	(4.16)	(5.17)
Cash Ratio_Partner			0.125***	0.144***	1.578***
			(11.91)	(12.61)	(11.93)
Past Return_Focal			-0.003	-0.002	0.005
			(-0.70)	(-0.43)	(0.05)
Past Return_Partner			0.002	0.004	0.053
			(0.67)	(1.14)	(1.44)
Industry Pair × Year	No	No	Yes	Yes	No
FEs?					
Deal FEs?	No	No	No	Yes	Yes
Observations	29,012	29,012	29,012	29,012	29,012
R-squared	0.002	0.003	0.078	0.105	0.278

Table 4: Heterogeneity – Trade Secret and High-Technology Alliances

This table examines the effect of political distance on the likelihood of alliance formation across different types of deals. The dependent variable is *Alliance*, which equals one for the actual alliance deals and zero for pseudo-deals. Columns (1)-(2) focus on trade-secret-related alliances, identified by keyword searches (“trade_secret”, “trade_secrecy”) in firms’ annual 10-K filings for the fiscal year preceding the alliance announcement. Columns (3)-(4) focus on high-technology alliances, defined by 3-digit SIC codes following Francis and Schipper (1999). All variables are defined in Appendix A. Columns (1)-(4) report conditional logistic regression results. Z-scores are reported in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

Variables	(1)	(2)	(3)	(4)
	Trade Secret? Yes	No	High-Technology? Yes	No
Political Distance	-0.679*** (-3.55)	-0.494** (-2.24)	-0.938*** (-4.79)	-0.274* (-1.85)
Democratic Affiliation _Focal	0.268 (0.49)	2.001*** (2.97)	-0.413 (-0.70)	1.262*** (3.16)
Democratic Affiliation _Partner	0.528 (1.63)	0.562 (1.52)	0.313 (0.99)	1.062*** (4.17)
HQ Distance	-0.003 (-1.27)	-0.004 (-1.00)	-0.003 (-1.37)	-0.006** (-2.22)
Similarity	-0.239** (-2.21)	0.120 (0.93)	-0.132 (-1.22)	0.083 (1.00)
Book Assets_Focal	1.512*** (17.15)	1.498*** (13.11)	1.548*** (16.89)	1.250*** (21.34)
Book Assets_Partner	0.885*** (18.86)	0.687*** (15.06)	1.193*** (20.92)	0.624*** (21.19)
Book to Market_Focal	-1.543*** (-4.66)	-0.751*** (-2.63)	-1.734*** (-4.35)	-0.639*** (-3.71)
Book to Market_Partner	-1.032*** (-5.27)	-0.433*** (-2.69)	-1.624*** (-7.21)	-0.603*** (-5.71)
Book Leverage_Focal	-0.158 (-0.50)	-0.173 (-0.37)	-0.287 (-0.87)	0.125 (0.48)
Book Leverage_Partner	0.272* (1.67)	-0.067 (-0.31)	0.521*** (3.37)	-0.081 (-0.56)
Return on Assets_Focal	0.128 (0.34)	-1.008 (-1.30)	-0.349 (-0.98)	-0.531 (-1.28)
Return on Assets_Partner	-0.646*** (-5.36)	-0.772*** (-4.40)	-0.583*** (-5.33)	-0.914*** (-7.77)
Sales Growth_Focal	-0.046 (-0.33)	-0.691** (-2.18)	-0.019 (-0.13)	-0.140 (-0.91)

Sales Growth_Partner	-0.015 (-0.32)	-0.125 (-1.58)	0.011 (0.29)	0.075 (1.58)
Cash Ratio_Focal	1.173*** (3.19)	1.708** (2.24)	1.369*** (3.84)	1.312*** (3.25)
Cash Ratio_Partner	1.459*** (7.40)	1.580*** (5.67)	1.972*** (10.57)	1.181*** (6.00)
Past Return_Focal	-0.114 (-0.86)	-0.055 (-0.26)	0.045 (0.35)	-0.015 (-0.13)
Past Return_Partner	-0.012 (-0.21)	0.108 (1.49)	0.111** (2.16)	-0.005 (-0.09)
Difference (p-value)	-0.185 (p = 0.524)		-0.664 (p = 0.005)	
Deal FEs?	Yes	Yes	Yes	Yes
Observations	10,031	5,963	12,852	15,998
Pseudo R ²	0.331	0.294	0.343	0.246

Table 5: The Effect of Political Distance on the Likelihood of Repeated Alliances

This table examines the effect of political distance on the likelihood of a strategic alliance being repeated. The dependent variable is Repeated Alliance, which equals one if the deal is classified as a repeated deal, and zero otherwise. A deal is considered a repeated deal if both participants have previously established a strategic alliance or joint venture between them at any time after 1990 but prior to the current deal. All variables are defined in Appendix A. Column (1) reports the results of a conditional logistic regression, and Column (2) reports the LPM regression results. Z-scores are reported in Columns (1), and t-statistics are reported in Column (2) in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

Variables	(1) Logit Repeated Alliance	(2) LPM Repeated Alliance
Political Distance	-0.814*** (-2.79)	-0.100*** (-3.23)
Democratic Affiliation_Focal	-0.578 (-1.12)	-0.062 (-1.13)
Democratic Affiliation_Partner	-0.299 (-0.63)	-0.024 (-0.46)
HQ Distance	-0.006 (-1.46)	-0.001 (-1.46)
Similarity	0.110 (0.88)	0.016 (1.09)
Book Assets_Focal	0.208*** (4.15)	0.016*** (3.60)
Book Assets_Partner	0.378*** (9.68)	0.046*** (11.03)
Book to Market_Focal	-0.474* (-1.92)	-0.032 (-1.49)
Book to Market_Partner	-0.210 (-1.18)	-0.021 (-1.28)
Book Leverage_Focal	0.194 (0.61)	0.021 (0.63)
Book Leverage_Partner	0.131 (0.54)	0.000 (0.01)
Return on Assets_Focal	-0.296 (-0.50)	-0.034 (-0.65)
Return on Assets_Partner	-0.242 (-1.07)	-0.041* (-1.85)
Sales Growth_Focal	-0.678** (-2.39)	-0.049** (-2.06)

Sales Growth_Partner	-0.054 (-0.59)	-0.005 (-0.62)
Cash Ratio_Focal	1.401*** (3.61)	0.178*** (4.16)
Cash Ratio_Partner	1.109*** (3.60)	0.095*** (2.91)
Past Return_Focal	0.199 (1.28)	0.019 (1.17)
Past Return_Partner	-0.120 (-1.19)	-0.009 (-0.95)
Observations	2,647	2,647
R-squared	0.155	0.123

Table 6: Political vs. Cultural Distance in Strategic Alliance Formation

This table presents the results of conditional logistics regressions on the effect of political distance on the strategic alliance formation, incorporating non-political measures of corporate culture. We restrict the sample used in Table 3 to firms with available *Corporate Culture* scores from Li et al. (2020), which assess five dimensions of corporate culture: Innovation, Integrity, Quality, Respect, and Teamwork. Following Duchin et al.(2024), *Cultural Distance* is calculated as the sum of the absolute differences in *Corporate Culture* scores between deal participants. We control for deal fixed effects and report z-scores in parentheses. All variables are defined in Appendix A. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

Variables	(1) Alliance	(2) Alliance	(3) Alliance
Political Distance	-0.316** (-2.05)		-0.310** (-2.00)
Cultural Distance		-0.010 (-1.33)	-0.010 (-1.26)
Democratic Affiliation _Focal	0.965** (2.21)	1.046** (2.42)	0.964** (2.20)
Democratic Affiliation _Partner	0.610** (2.32)	0.744*** (2.94)	0.616** (2.34)
HQ Distance	-0.005** (-2.09)	-0.005** (-2.38)	-0.005** (-2.11)
Similarity	-0.008 (-0.10)	-0.001 (-0.02)	-0.005 (-0.06)
Book Assets_Focal	1.531*** (20.99)	1.537*** (21.01)	1.533*** (20.98)
Book Assets_Partner	0.857*** (24.33)	0.854*** (24.27)	0.855*** (24.26)
Book to Market_Focal	-1.032*** (-3.98)	-1.059*** (-4.08)	-1.044*** (-4.03)
Book to Market_Partner	-0.704*** (-5.37)	-0.719*** (-5.45)	-0.713*** (-5.42)
Book Leverage_Focal	0.051 (0.17)	0.049 (0.17)	0.051 (0.17)
Book Leverage_Partner	0.158 (1.09)	0.153 (1.06)	0.153 (1.06)
Return on Assets_Focal	-0.849* (-1.83)	-0.855* (-1.85)	-0.848* (-1.82)
Return on Assets_Partner	-1.022*** (-6.55)	-1.024*** (-6.56)	-1.031*** (-6.60)

Sales Growth_Focal	0.054	0.056	0.054
	(0.37)	(0.38)	(0.37)
Sales Growth_Partner	-0.014	-0.014	-0.013
	(-0.29)	(-0.30)	(-0.27)
Cash Ratio_Focal	1.336***	1.379***	1.368***
	(3.59)	(3.70)	(3.67)
Cash Ratio_Partner	1.716***	1.739***	1.728***
	(9.01)	(9.12)	(9.06)
Past Return_Focal	-0.115	-0.118	-0.116
	(-0.93)	(-0.95)	(-0.94)
Past Return_Partner	0.091*	0.092*	0.091*
	(1.77)	(1.80)	(1.77)
Deal FEs?	Yes	Yes	Yes
Observations	15,066	15,066	15,066
Pseudo R ²	0.325	0.324	0.325

Table 7: Alternative identification of political distance based on employee location

This table presents the results of LPM and CLogit regressions examining the effect of political distance on strategic alliance formation, where political distance is identified in an alternative way based on the Metropolitan Statistical Area (MSA) holding the largest share of the firm's workforce. We use employee-level workplace data from Revelio Labs to locate each firm's primary operational geography. We then aggregate presidential election votes from all constituent counties within each MSA to calculate political affiliations. The *Democratic Affiliation* is calculated as the total number of votes cast for the Democratic presidential candidate divided by the total number of votes within the MSA. The Republican and other parties' shares are calculated similarly. *Political Distance* is defined as the sum of the absolute differences in Democratic, Republican, and other party vote shares between the operational MSAs of two alliance partners. The dependent variable is *Alliance*, which equals one for actual alliance deals and zero for pseudo-deals. All other control variables and fixed effects follow the baseline specification in Table 3. All variables are defined in Appendix A. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

	(1)	(2)	(3)	(4)	(5)
		LPM			Clogit
Variables	Alliance	Alliance	Alliance	Alliance	Alliance
Political Distance	-0.103*** (-4.29)	-0.098*** (-4.06)	-0.085*** (-3.05)	-0.082*** (-2.89)	-0.595** (-2.11)
Democratic Affiliation_Focal		0.050 (1.59)	0.064 (1.49)	0.064 (1.44)	0.846 (1.37)
Democratic Affiliation_Partner		0.037 (1.20)	0.111*** (2.70)	0.094** (2.18)	0.521 (1.42)
HQ Distance			-0.001*** (-2.85)	-0.001*** (-2.74)	-0.009*** (-2.87)
Similarity			0.008 (0.73)	0.010 (0.88)	0.145 (1.32)
Book Assets_Focal			0.068*** (23.87)	0.082*** (27.01)	1.555*** (14.60)
Book Assets_Partner			0.066*** (16.59)	0.100*** (21.32)	0.797*** (16.27)
Book to Market _Focal			-0.019 (-1.07)	-0.034* (-1.81)	-0.927*** (-3.17)
Book to Market _Partner			0.007	-0.034**	-0.438**

			(0.47)	(-2.08)	(-2.55)
Book			-0.040*	-0.017	-0.082
Leverage_Focal					
			(-1.94)	(-0.80)	(-0.24)
Book Leverage			0.008	0.058***	0.485***
_Partner					
			(0.42)	(2.81)	(2.65)
Return on			-0.090***	-0.062**	-0.634
Assets_Focal					
			(-3.09)	(-2.04)	(-1.36)
Return on			-0.167***	-0.156***	-1.108***
Assets_Partner					
			(-8.09)	(-6.96)	(-5.80)
Sales			-0.014	-0.017	-0.253
Growth_Focal					
			(-1.09)	(-1.22)	(-1.35)
Sales			-0.000	-0.001	-0.004
Growth_Partner					
			(-0.08)	(-0.08)	(-0.08)
Cash Ratio_Focal			0.079**	0.097***	1.527***
			(2.44)	(2.86)	(3.01)
Cash			0.199***	0.227***	1.744***
Ratio_Partner					
			(6.96)	(7.32)	(6.74)
Past			-0.014	-0.013	0.066
Return_Focal					
			(-1.20)	(-1.13)	(0.40)
Past			0.012	0.023***	0.181***
Return_Partner					
			(1.54)	(2.76)	(2.64)
Industry Pair ×	No	No	Yes	Yes	No
Year FEs?					
Deal FEs?	No	No	No	Yes	Yes
Observations	6,878	6,878	6,878	6,875	6,875
R-squared	0.003	0.003	0.146	0.176	0.322