Within-firm Labor Heterogeneity and Firm Performance: Evidence from Employee Political Ideology Conflicts*

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Abstract

This paper explores the implication of within-firm labor heterogeneity for firm performance through the lens of employee political ideology. Using individual campaign donation information to capture political ideology, I find that political ideology conflicts, both those between CEOs and employees and those within employees, are negatively associated with firms' future operating performance. This effect is stronger for firms whose employees are more geographically concentrated, more sophisticated, and more devoted to political participation. The reduced labor productivity and abnormal employee turnover are two plausible mechanisms through which employees' political ideology conflicts hurt firm performance. To establish causality, I use an instrumental variable approach which relies on the exogenous variation in political ideology caused by local television station ownership changes.

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1. Introduction

The 2016 U.S. presidential election has witnessed and brought public attention to numerous heated debates among people with different political ideology, even those living in the same neighborhood or working for the same employer. When people in a social environment (e.g., a family, neighborhood, or workplace) express different political views in the public or attempt to convince one another of such views, conflicts, either verbal or physical, could take place and adversely affect their relationship, which might eventually impose severe negative externalities on the entire social group. The welfare implication of heterogenous political views in the same social group is both an important and an interesting topic not only to academics, but also to business practitioners and policy makers. However, even though the most recent presidential election has revealed tremendous heterogeneity in political beliefs among seemingly homogeneous social groups, the consequences of such ideology conflicts on the real economy remain underexplored. In particular, much of the literature to date, with a few exceptions (to be discussed later), has treated a firm's employees as a homogeneous group whose decisions can be made by a "representative" agent. As a result, few studies have explored the implications of within-firm labor heterogeneity, especially the differential political views among workers in the same workplace, for firm performance and policies. My paper aims to fill in this gap by empirically investigating the political ideology conflicts among employees and their effects on corporate performance.

As the modern society has been pushing for diversity at workplace over the past few decades, a typical firm's employees nowadays are likely to exhibit heterogeneous political ideology, which might lead to workplace conflicts due to such different political views. In general, there are two types of employee political ideology conflicts in a firm. The first type exists between employees and the CEO. For example, according to a Bloomberg news article (Hymowitz and Greenfield, 2017), in November 2016, Ginni Rometty, the CEO of IBM, sent an open letter to Donald Trump, congratulating him for winning the presidential election. This letter provoked a storm of protest from Democratic employees at IBM. For example, a software engineer, Daniel Hanley, drafted a petition that urged the CEO to "do what's right for

IBMers" and got more than 1,600 supporting signatures from his fellow workers. Meanwhile, a senior content strategist at IBM, Elizabeth Wood, decided to quit the company, and published an open letter stating that she left the company because of the CEO's political ideology. In this example, the employees and the CEO of a firm have strong political ideology conflicts, which lead to negative consequences for the firm, in terms of distraction at workplace and voluntary departure of skillful employees.

The second type of employee political ideology conflicts exits within the employees. According to another Bloomberg news article (Weise, 2017), conservative employees in the Silicon Valley feel ostracized in the workplace because of their political ideology, which they are afraid of revealing to coworkers because the latter might take it as a "personal affront". It is reasonable to expect that a firm's teamwork efficiency and labor productivity will suffer when the firm's employees cannot freely express themselves or communicate with each other in the workplace, or when they are distracted from work by political issues.

Despite the abundant anecdotal evidence suggesting that within-firm heterogeneity in employee political ideology will negatively affect firms, one could argue that such heterogeneity might actually improve firm value by reducing managers' empire-building incentives (e.g., retaining/promoting incapable employees sharing similar political ideology with that of themselves). In fact, Lee, Lee, and Nagarajan (2014) show that the alignment of political views between a firm's CEO and its board members increases managerial entrenchment and decreases shareholder value. In other words, they find that a larger difference in political ideology between the CEO and board members will benefit the shareholders. If the CEO-employee relationship is similar to the CEO-board relationship, then a larger difference in political views between employees and the CEO might make the latter less incentivized to please the former out of entrenchment motives (e.g., via wage increases, as documented by studies such as Cronqvist et al., 2009), which leads to an improvement of firm value. Similarly, greater heterogeneity in a firm's political ideology among employees might also increase its performance because a more diverse workforce (which usually accompanies a more vibrant corporate culture) might inspire more thought-provoking conversations at the workplace and lead to more skill-complementarity among employees with different backgrounds, which

boosts corporate innovation and ultimately enhances firm value (see, e.g., Mayer, Warr, and Zhao (2018); Ostergaard, Timmermans, and Kristinsson (2010); Richard (2000)). Hence, whether within-firm heterogeneity in employee political ideology increases or decreases firm performance/value is an empirical question.

In this paper, I formally examine the above two competing hypotheses by analyzing the impact of employee political ideology conflicts on firm performance. Following the literature, I capture an employee's political ideology using individual political campaign donation data provided by Federal Election Commission (FEC). For each person in a given year, I calculate her Democratic tendency (i.e., DEM%) as the dollar amount of her donation to Democratic recipients divided by the dollar amount of her donation to both the Democratic recipients and Republican recipients. A higher value of DEM% indicates that the person is more Democratic-oriented. For a given firm-year, I then use the absolute value of the difference between the CEO's DEM% and the average employees' DEM% as the proxy for the political ideology conflict between employees and the CEO. To capture the political ideology conflicts among employees, I calculate the percentage of strongly polarized employees (i.e., those with much stronger support for one party relative to the other) in a given firm-year, and assign a score ranging from 1 to 5 to the firm-year based on its relative proportion of such strongly polarized employees.

The baseline ordinary least squares (OLS) regression results show that there is a significantly negative association between a firm's operating performance (i.e, return on assets, ROA) and both the political ideology conflicts between its CEO and the average employees and those within the employees. In terms of economic magnitudes, a one standard deviation increase in CEO-employee political ideology conflicts is associated with a 0.45 percentage points decrease in ROA, which is about 9.8% of its mean. A firm with the strongest within-employee conflicts (i.e., with more than 40% strong Democratic employees and more than 40% strong Republican employees) has a 0.8 percentage points lower ROA than a firm with the weakest within-employee conflict (i.e., with less than 10% strong Democratic employees or less than 10% strong Republican employees). Using information from Execucomp and Capital IQ, I further

decompose the CEO-employee political ideology conflicts into the conflicts between the CEO and employees of different ranks within the firm, and find that the negative association of political ideology conflicts with firm performance manifests for most hierarchies of employees except board members.

I then conduct multiple subsample analyses to explore the cross-sectional heterogeneity of the relation between employee political ideology conflicts and firm performance. First, the negative association between ROA and employee political ideology conflicts should be stronger for firms with more geographically concentrated employees. When employees live and work in the same geographic location, they tend to interact and communicate with each other more often, which makes it easier for them to unite together and collectively oppose the CEO if the latter's political ideology contradicts with theirs, leading to more destructive dynamics at the workplace and hurt firm performance. Using the residential address information provided by the FEC for each registered donor, I find that the negative association between ROA and employee political ideology conflicts is indeed more pronounced when a larger fraction of a firm's employees live in its headquarter state and when the Herfindahl Index of the employees' states of residence is higher.

Second, I expect the association between employee political ideology conflicts and firm performance to be stronger for firms with more sophisticated/skillful employees, who tend to have more polarized political views and contribute more to firm value. Using two empirical measures from the literature (e.g., Belo et al., 2017; Ghaly, Dang, and Stathopoulos, 2017; He, Shu, and Yang, 2018) to proxy for employee sophistication/skill, I find evidence consistent with this prediction.

Third, the association between employee political ideology conflicts and firm performance should be more pronounced when employees participate more in political activities. Given the same level of CEO-employee political ideology conflict, firms with more politically active employees would observe a stronger relation between firm performance and employee political ideology conflicts because such employees tent to have stronger opinions and thus resent people with opposing views to a greater extent, which magnifies

the disruptive impact of political ideology conflicts on firm performance. Using employees' campaign donation intensity to proxy for their political activeness, I find evidence consistent with this prediction.

Furthermore, I exploit the channel through which employees' political ideology conflict affects firm performance. Edmans (2011) argues that employee satisfaction is positively associated with firm value because employees, if satisfied with their employers, tend to have higher productivity and are less likely to leave the firm. In a similar vein, Oswald, Proto, and Sgroi (2015) argue that employees' happiness increases their productivity at workplace. Hence, I conjecture that the lower ROA resulting from greater employee political ideology conflicts could be caused by two possible channels, namely, lower productivity and abnormal employee turnover, when employees are not satisfied or happy due to the conflicts in political ideology at workplace. To test the first channel, I use the natural logarithm of sales to employee number ratio as an empirical measure of labor productivity and find that both the CEO-employee and within-employee political ideology conflicts are negatively associated with labor productivity. I further use the number of patents filed and the average number of citations received per patent by individual inventors as proxies of labor productivity, and find consistent results. To study the turnover channel, I identify the departure events of key employees using information from the Capital IQ database and find that higher employee political ideology conflicts lead to a higher turnover rate of such employees.

While the OLS results suggest that there is a negative relation between employee political ideology conflicts and firm performance, endogeneity concerns could arise due to either omitted variables or reverse causality. For example, according to the evidence presented by Babenko, Fedaseyeu, and Zhang (2018), CEOs could exert influence on employees' political decisions to increase shareholder value, which makes the CEO-employee political ideology conflict an endogenously determined variable. Moreover, entrenched CEOs, under empire-building incentives, may hire or retain more employees who share similar political ideology with themselves. To alleviate such endogeneity concerns, I implement a two-stage least-squares (2SLS) estimation framework, using the acquisitions of local television stations by Sinclair Broadcast Group (Sinclair) as an instrumental variable (IV) for employee political ideology conflicts. Sinclair, as the

largest television station operator in the United States in terms of both the number of stations owned and the total coverage of local TV audience, has long been known to have a strong conservative orientation. Martin and McCrain (2018) document a significant rightward shift in the ideological slant of TV coverage in a community after its local television stations are acquired by Sinclair. As previous literature shows that mass media (such as television programs) has a strong persuasive effect on people's political orientation (e.g., DellaVigna and Kaplan, 2007; Martin and Yurukoglu, 2017), it is reasonable to believe that the acquisitions of local television stations by Sinclair would shift the political ideology of people (including working professionals) living in the same location, influence the conflicts of political views at workplace, and ultimately affect the performance of firms hiring these employees. Meanwhile, the incidences of such acquisitions appear not to be driven by local economic conditions (e.g., Martin and McCrain, 2018) and should not influence the performance of affected firms through channels other than employee political ideology conflicts. Thus, this instrument is likely to satisfy both the relevance condition and the exclusion restriction.

Specifically, I first identify whether the local television stations at each sample employee's city of residence are acquired by Sinclair in a given year, and then aggregate this shock to the firm-year level as the instrumental variable for employee political ideology conflicts. I show that the Sinclair shock makes affected employees more Republican-oriented, which is likely to reduce the CEO-employee political ideology conflicts because CEOs are predominantly more Republican-oriented than employees (e.g., Babenko, Fedaseyeu, and Zhang, 2018) and thus less affected by the Sinclair shock than an average employee in the same workplace. Similarly, as the distribution of my employee political ideology measure (i.e., DEM%) ranges from zero (indicating strong Republican) to one (indicating strong Democratic), the Sinclair shock would shift an individual employee towards the left end of this distribution, which tends to reduce the distances in political ideology among individual employees (i.e., reduces the within-employee political ideology conflicts). Using the Sinclair acquisition shock as the IV, I show that an exogenous decrease in the CEO-employee political ideology conflicts indeed causes an increase in firm performance.

However, the impact of within-employee political ideology conflicts on firm performance is statistically insignificant under the IV specification.

This paper sheds new light on the effect of labor-management relationship and within-firm labor heterogeneity on firm performance through the lens of political ideology. It is the first to explicitly examine the differences in political ideology between CEOs and employees of all ranks along the corporate ladder as well as the differences in political ideology among rank-and-file employees. In this sense, the current paper supplements the findings in the recent literature on the association between CEOs'/employees' political contribution and firm value, which mostly treats a firm's executives or employees as a homogeneous group of decision makers. The closest paper to mine is that by Babenko, Fedaseyeu, and Zhang (2018), who show that the pattern of CEOs' political donations differs from that of their employees because the employees make donations to benefit themselves while the CEOs make donations to increase shareholder value. In other words, the conflicts between the CEO and the employees benefit the shareholders. In contrast to their study, my paper shows that the CEO-employee political ideology conflicts could actually lead to negative consequences for the firm. I also propose a new measure of political ideology conflicts among employees. Using this measure, I examine not only the CEO-employee conflicts, but also the within-employee conflicts, and contrast their differential effects on firm performance. Last but not least, this paper proposes a new identification strategy to the literature on political ideology, namely, the acquisition of local TV stations by Sinclair, which could possibly provide an exogenous variation to local people's political ideology and improve the causal inference of studies on stakeholders' political views and participation.

The remainder of the paper is organized as follows: Section 2 describes the relation and contribution of this paper to the existing literature; Section 3 documents the sample selection and data construction; Section 4 presents the baseline empirical results and robustness tests; Section 5 investigates the cross-sectional heterogeneity in the association between employees' political ideology conflicts and firm

performance; Section 6 documents the two channels in which conflicts affect performance; Section 7 discusses endogeneity issues and conducts the 2SLS tests to establish causality; Section 8 concludes.

2. Relation and Contribution to the Existing Literature

My paper is related to the literature on employee satisfaction and firm value. Edmans (2011) shows that a value-weighted portfolio of the 100 companies with the highest employee satisfaction in the United States created an annual four-actor alpha of 3.5% from 1984 to 2019, suggesting that employee satisfaction creates shareholder value in the long run. Oswald, Proto, and Sgroi (2015) use both experimental and real-world evidence to show that individuals' happiness increases their productivity. Huang et al. (2015) study the association between employee satisfaction and corporate performance in the context of family firms. They find that family firms enhance their performance by providing an employee-friendly corporate culture. Researchers have also shown that labor-management relationship, as an important factor of employee satisfaction, significantly affect firm performance. For example, Guiso, Sapienza, and Zingales (2015) find that firm performance is stronger when employees perceive top managers as trustworthy and ethical. My paper contributes to the literature by studying the association between firm performance and employees' political ideology conflict, which is a significant factor of employee satisfaction and labor-management relationship but cannot be captured in standard employee welfare measures such as KLD score. consistent with the predictions in the literature, I find that firm performance is lower when employee satisfaction is lower and when labor-management relationship is worse, in the context of political participation.

My paper is also related to the large literature that studies the relationship between CEO political ideology and corporate behavior. Di Giuli and Kostovetsky (2014) show that firms with Democratic CEOs spend more on corporate social responsibility (CSR), which is associated with a decrease in firm value. Hutton, Jiang, and Kumar (2014) show that republican managers adopt and maintain more conservative corporate policies. Francis, Hasan, Sun, and Wu (2016) show that political partisan CEOs are associated

with more corporate tax sheltering. While Republican CEOs use tax sheltering for idiosyncratic reasons, Democratic CEOs use it for economic reasons. Unsal, Hassan, and Zirek (2016) show that Republican managers lobby a larger number of bills and have higher lobbying expenditures, which offset the benefit from lobbying.

Lee, Lee, and Nagarajan (2014) is the first paper to study the political ideology conflict between the CEO and other stakeholders of the firm. They show that when CEO and board members share similar political ideology, the empathy and acceptance between them increase. As a result, board monitoring is weakened, CEO entrenchment increases and firm value decreases. While my paper uses similar methodology, I study the impact of the difference between CEO's political ideology and non-CEO employees' political ideology, instead of that of the board members. Since employees do not have monitoring duty, shared values and belief systems between the CEO and rank-and-file employees in a firm should result in more efficient decision making, execution, and better teamworking. On the other hand, if employees do not share the same political ideology with their CEOs, the efficiency of teamworking and execution could suffer, which could negatively impact labor productivity and firm performance.

Another stream of literature focuses on the relation between employees' political ideology and firm behavior. Gupta, Briscoe, and Hambrick (2016) show that firms with liberal employees have larger CSR spending. Borghesi (2018) shows that the impact of employees' political ideology on firm CSR intensity is even more significant than the impact of executives' political ideology.

Babenko, Fedaseyeu, and Zhang (2018) is the first paper to study the relation between CEOs and employees' political participation. They show that in the same election cycle, a firm's employees are more likely to make campaign donations to the candidates who receive donations from the firm's CEO. They claim that CEOs exert influence on employees' political participation to support the candidates whose policies will benefit the firm more. While the action increases shareholder value, it is not likely that the employees' economic values are perfectly correlated with shareholder value. Therefore, the CEOs' influence decreases employees' economic gain from campaign donations. While the authors have done a

very thorough study on the relation between CEO and employees' political participation, some interesting questions arise from their findings. It can be inferred from their results that the employees' ex ante political ideology differs from that of the CEOs. If they always share the same ideology, there will be no need for the CEO to influence the employees' donations. Assume there are two types of employees: those whose donations are affected by the CEO, and those whose donations are not affect by the CEO. The first type could be the individuals who have very strong political affiliation, which cannot be easily affected by CEO's effort. When the CEO makes the attempt to affect their campaign donations, tension is likely to arise between these employees and the CEO and results in negative consequences for the firm. For the second type of individuals, even if their donations are affected by the CEO, it does not necessarily mean that shift their political ideology to be consistent with the CEO. On the contrary, the influence exerted by the CEO could exacerbate the conflict between these employees and CEO, since the employees are influenced to make donations that do not provide them with economic gains, as shown by Babenko, Fedaseyeu, and Zhang (2018). Therefore, their study provides a motivation of my research: when the political ideology conflict arises between CEO and employees, how does it affect firm performance?

Finally, my paper is broadly related to the literature that studies the relation between firm value and political connection/participation, such as Political Action Committee (PAC) campaign donation made by firms (Akey, 2015; Cooper, Gulen, and Ovtchinnikov, 2010), acquisition of political information by hedge fund managers (Gao and Huang (2016)), political connections of board members (Goldman, Rocholl, and So, 2013), and campaign donation made by individuals (Ovtchinnikov and Pantaleoni, 2012). On one hand, the political alignment between CEO and employees can be viewed as a form of connection. Consistent with the literature, the connection should create value for firms. On the other hand, both CEOs' and employees' campaign donations are forms of political participation. My study shows that in the context of labor-management relationship and within-firm labor heterogeneity, political participation might have a negative impact on firm value.

3. Data Construction and Summary Statistics

3.1 Data and Sample Selection

Following the literature on political ideology and finance (e.g., Hong and Kostovetsky, 2012, Di Giuli and Kostovetsky, 2014), I use the individual campaign donation data provided by Federal Election Commission (FEC) starting in 1979 to construct proxies for employees' political ideology. The FEC individual contributions file contains information at transaction level about each contribution from an individual to a political committee/candidate, which is disclosed by the donation recipients under the requirement of federal law. It is notable that not all individual donations are subject to mandatory disclosure. In 1975-1988, a contribution would be reported if the accumulated contribution made by the donor in the reporting period is $500 or more. In 1989-2014, a contribution would be reported if the reporting period amount is $200 or more. In 2015-2016, a contribution is reported if the election cycle-to-date amount is over $200 for contributions to candidate committees and if the calendar year-to-date amount is over $200 for contributions to political action committees (PACs) and party committees.[1] I include only the donations subject to mandatory disclosure in the sample, to avoid the potential selection bias of voluntary disclosure.

I include contributions to candidate committees, party committees, hybrid PACs and super PACs with strong party affiliation in the sample. The party affiliation of candidate and party committees are obtained from the committee master file provided by FEC. For hybrid PACs and super PACs which have more than 1,000 transaction records, I manually search for the political orientation of the PAC on OpenSecrets.org or Google.com.[2] For each individual donation, I obtain the date and dollar amount of the donation, employer and location information of the donor, and party affiliation of the recipient. FEC does

[1] Information obtained from the Federal Election Commission website at https://www.fec.gov/campaign-finance-data/contributions-individuals-file-description/ .

[2] Previous papers in the literature include only donations to candidate and party committees. However, some hybrid PACs and super PACs have strong political orientation and account for a significant amount of donations made by individuals. For example, Hillary Victory Fund raised a total of $424 million in the 2016 election cycle, which accounted for 11.16% of total contributions from individuals in the cycle. Not including these contributions will significantly reduce sample size and potentially introduce selection bias.

not provide a unique identifier for donors. Therefore, I first create a standardized name for each donor, capitalizing the characters and removing the prefixes and suffixes, and then use a combination of the standardized name and city of residence of the individual to create a unique identifier for each donor.

The employer of each donor is reported in the FEC database. However, the self-reported employer information is noisy. For example, an employee of Google might report her employer as "Google", "Google Inc", "Google.com", "Alphabet Inc", etc. Some donors also include their job title in their employer information field, such as "Bank of America Banker", "Home Depot Sales", etc. Therefore, I use a two-step approach to link employer from FEC files to Compustat records. First, I standardize the employer names by deleting special characters and standardizing the suffixes such as "Inc", "Corp", "Company", etc., and match the standardized employer names to company names in Compustat, CRSP, and Capital IQ database. Matching to company names from several different databases minimizes the number of observations I lose due to unknown limitations in the company name collecting process of data vendors. Second, I employee a fuzzy-matching algorithm using two SAS functions "compare" and "complev". "Compare" returns the position of the leftmost character by which two strings differ. "Complev" returns the Levenshtein edit distance between two strings. I calculate the "compare" and "complev" value for each pair of employer name from FEC dataset and company name from standard financial databases. I require a pair of names to have "compare" value no less than 10 and "complev" value no larger than 9 to be a good match.[3] Adjusting the threshold slightly upwards or downwards does not change the empirical results qualitatively. The full individual contribution sample with matched employers contains 2.17 million transactions made by 384,211 employees from 15,691 firms.

3.2 Measuring Employees' political Ideology Conflict

[3] Babenko, Fedaseyeu, and Zhang (2018) apply a fuzzy-matching algorithm to match employer names from FEC and company names from BoardEx. They manually check matches selected by the algorithm. However, my sample is not limited to BoardEx, which significantly enlarges the sample size and makes hand-checking impractical.

3.2.1 Measuring Person-level Political Ideology

For each employee in year *t*, I define the individual's democratic tendency (*DEM%*) as the total dollar amount of her donations to Democratic recipients divided by the total dollar amount of her donations to both Democratic and Republican recipients in year *t* and *t*-1. Since the amount of donation is procyclical with election years, calculating individuals' political orientation using donations in a two-year rolling window ensures that at least the donations from one election year are captured in the measure, which reduces the noise in the proxy for political orientation. The variable *DEM%* is continuous, ranging from 0 to 1. A higher *DEM%* value indicates that the person is more Democratic-oriented.

I further identify each employee's rank in the company using person-level information from Execucomp and Capital IQ People Intelligence database. An employee is identified as the CEO if her name matches the CEO's name from Execucomp or Capital IQ in a given year. An employee is identified as a key employee if her name matches the name of a non-CEO employee in Execucomp or Capital IQ. Board members are identified in a similar fashion. The employees whose names do not match with any records from Execucomp or Capital IQ are defined as rank-and-file employees. The matched data of employee donation and employee identification information span between 1992 and 2016.

Table 1 presents the descriptive statistics of person-level political ideology by employee rank. In Panel A, Column 1 shows the number of person-year observations for each rank, Column 2 shows the average dollar amount of donation per person-year, and Column 3 shows the mean Democratic tendency. Panel B presents the distribution of *DEM%* within each employee rank. The statistics reveal some interesting patterns of employees' political ideology. First, employees in higher ranks donate more than employers in lower rank. The average dollar amount of donation per CEO-cycle is $27,125.16, which is approximately 10 times the size of average donation made by rank-and-file employees. Second, employees in lower ranks are more Democratic-oriented on average. The mean Democratic tendency of rank-and-file employees is 51.94%, compared to 35.54% of the CEOs. The number of strong Republican CEOs is more than twice as much as the number of strong Democratic CEOs. Third, employees in lower ranks are more

polarized than employees in higher ranks. While the percentage of strong Republicans is almost equal across all ranks, the percentage of strong Democrats is significantly higher in lower ranks. Also, the percentage of weak partisans is lower in lower ranks. In general, the statistics indicate that there is strong heterogeneity in employees' political participation and orientation.

3.2.2 Measuring Political Ideology Conflict

For each firm-year, I calculate the CEO's *DEM%* (*DEMCEO*) as the proxy for CEO's political ideology. Since I can track the CEO's employment record using information from Execucomp and Capital IQ, for the years when a CEO does not have any donation records, I fill in the year's *DEMCEO* with the last available value. I then calculate the overall non-CEO employees' political orientation for a firm-year as the average of non-CEO employees' *DEM%* (*DEMemp*). I further separate the political orientation measure by the rank of the non-CEO employees, i.e. the key employees and rank-and-file employees. Employees with higher ranks are likely to be wealthier and more educated than rank-and-file employees. They are more likely to have strong political affiliation and have larger impact on the firm's performance. They also work more closely with the CEO and might have similar ideology to the CEO than rank-and-file employees. Therefore, I further calculate the ideology measure for key employees (*DEMkey*), board members (*DEMboard*), and rank-and-file employees (*DEMempRf*). Lee, Lee and Nagarajan (2014) argue that the political alignment between CEO and board members decreases firm value. To exclude the confounding effect, I further create a subsample of key employees who are not board members of their firms and calculate the political ideology of these non-board key employees (*DEMkeyNb*).

To proxy for the CEO-employee political ideology conflicts, I take the absolute value of the difference between the CEO's *DEM%* and the employees' average *DEM%*, for all non-CEO employees and separately for employees in each rank. A larger absolute value indicates that the CEO and the employees have larger conflict. I require that the ratio of donating employees to total number of employees for a firm

in Year *t* to be no lower than the ratio of donating U.S. citizens to the total population in the U.S. in the same year.

Table 2 Panel A presents the summary statistics of the political ideology conflict measures. *CEOempDiff, CEOkeyDiff, CEOboardDiff, CEOkeyNbDiff,* and *CEOempRfDiff* are the political ideology conflicts between CEO and all non-CEO employees, key employees, board members, non-board key employees, and rank-and-file employees, respectively. The statistics indicate that there is a 30.95% difference between CEO's and employees' political ideologies on average. The differences are larger for employees in lower ranks. The average of CEO-rank-and-file employee conflict is 33.14%, which is the highest among all the employee ranks, while the board members have the lowest conflict in political ideology with their CEO.

Measuring the within-employee political ideology conflicts is a difficult task. Simple measures of dispersion such as standard deviation or interquartile range are not applicable since they capture only the spread of employees' *DEM%*, but not whether the employees are Republican or Democratic. For example, a uniform distribution of employees' *DEM%* on [25%, 75%] and distribution on [0%, 50%] will have the same standard deviation, but they obviously have different implications in terms of political ideology conflict, as the first one consists of both Democratic and Republican employees, while the second one consists of only Republicans. Conceptually, a measure of the within-employee political ideology conflicts should capture 1) whether the individual employees are Republican or Democratic, 2) whether the individual employees are strongly polarized, and 3) the percentage of employees with strong polarization. To construct the empirical measure, I first define an individual as strong Democratic (Republican) if she donates more than $2,000 only to Democratic (Republican) recipients in the two-year window.[4] Then, I calculate the percentage of strong Democratic employees (*%StrongDEM*) and strong Republican

[4] Hong and Kostovetsky (2012) define strong Democratic (Republican) as individuals who made more than $2,000 donation to Democrats (Republicans), net of donation to Republicans (Democrats). However, the interpretation of the $2,000 difference varies in the total dollar amount of donations made by an individual. Thus, I apply a stricter definition of strong polarization.

employees (*%StrongREP*) in a firm. All possible pairs of *%StrongDEM* and *%StrongREP* create a [0,1] by [0,1] grid. Since the sum of *%StrongDEM* and *%Strong REP* cannot exceed 100%, the grid can be illustrated as an isosceles right triangle, as shown in Figure 1. The two sides of the triangle represent the percentages of strong Republican employees and strong Democratic employees in a firm. I divide the grid into 5 areas so that each area is assigned with a score (*EmpConflict*) that represents a level of within-firm employees' political ideology conflict. This is a strict definition of conflict between employees, because conflict increases if and only if both *%StrongDEM* and *%StrongREP* increase. For example, firms with *EmpConflict* equals 5 have the highest level of conflict, as these firms have both more than 40% strong Republican employees and more than 40% strong Democratic employees. Area 4 represents the second highest level of conflict, including firms with more than 30% strong Republicans, more than 30% strong Democrats, and at least one of the percentages is below 40%. Area 3 and 2 can be interpreted in similar fashion. Firms with *EmpConflict* equaling 1 have the lowest level of conflict, as at least one of the percentages of strong Republicans and strong Democrats are below 10%. I exclude firms with fewer than 10 employees to ensure that the value of *EmpConflict* is not driven by small denominators in *%StrongRep* and *%StrongDem*. The summary statistics of *EmpConflict* is presented in Table 2 Panel A. The variable has a mean of 2.69 and a median of 3.

3.3 Measuring Firm Performance and Controls Variables

The main dependent variable in my study is return on assets (*ROA*), defined as the ratio of operating income before depreciation to lagged total assets. I control for a set of variables that are commonly known to impact firm performance (e.g., Ovtchinnikov and Pantaleoni, 2012; Cao et al., 2018), including market-to-book ratio (*MB*), book leverage (*Lev*), the natural logarithm of total asset (*Size*), capital expenditure (*CAPEX*), the ratio of net property, plant, and equipment to total assets (*PPE*), research and development expenses (*RD*), and the natural logarithm of 1 plus firm age (*FirmAge*). For the tests where the independent variable is a CEO-employee conflict measure, I further control for several CEO characteristics, which

include a dummy variable equals to 1 if the CEO also serves as the chair of the board directors and 0 otherwise (*CEOchair*), the sum of CEO salary and bonus (*CEOpay*), and the natural logarithm of 1 plus CEO tenure at the firm (*CEOtenure*). The firm-level control variables are obtained from Compustat. The CEO-level control variables are obtained from Execucomp and Capital IQ. Detailed definitions of the variables are provided in Appendix A. Table 2 Panel B summarizes the firm performance and control variables. *ROA* has a mean of 4.6% and standard deviation of 29.2%.

4. Baseline Empirical Analysis

In this section, I conduct OLS regression analysis on the impacts of CEO-employee and within-employee political ideology conflict on firm performance. I then further break down CEO-employee political ideology conflict into the conflicts between CEOs and employees in different ranks and separately examine their effects on firm performance.

4.1 Impact of CEO-Employee Political Ideology Conflicts on Firm Performance

To test the effect of the CEO-employee political ideology conflicts on firm performance, I conduct the following OLS regression analysis in various forms:

$$ROA_{i,t+1} = \alpha_1 + \beta_1 * CEO\_emp_{i,t} + \gamma_1 * Controls_{i,t} + \varepsilon_{i,t} \quad (1)$$

The dependent variable, *ROA*, is defined as the ratio of operating income before depreciation to total assets. The proxy for CEO-employee political ideology conflicts, *CEOempDiff*, is the absolute value of the difference between CEO and non-CEO employees' Democratic tendency. The coefficient β_1 captures the impact of conflicts on firm performance. I control for a set of time-varying firm characteristics that may affect firm performance. I include firm and year fixed effects to control for unobserved heterogeneity across firms and across time, respectively. The standard errors are clustered by firm and year.

Table 3 Panel A presents results for the estimation of Equation 1. Column 1 includes no controls except firm and year fixed effects. Column 2 includes firm-level control variables. Column 3 and 4 include a set of CEO-level characteristics to control for CEO-level heterogeneity that may be simultaneously correlated with CEO political ideology and firm performance. Column 4 adds in industry (SIC4) fixed effects to account for unobserved heterogeneity at industry level that may affect firm performance.[5] The coefficients of *CEOempDiff* are significantly negative in all specifications, suggesting that there is a negative association between the CEO-employee political ideology conflicts and firm performance. As to the economic magnitude, the coefficient estimate in Column 4 indicates that a one standard deviation increase of CEO-employee political ideology conflicts is associated with a 0.45 percentage point decrease in *ROA*, which is approximately 9.8% relative to its mean.

4.2 Impact of Within-Employee Political Ideology Conflict on Firm Performance

I conduct analysis on the impact of the within-employee political ideology conflicts on firm performance using a similar model to Equation 1. The key independent variable, *EmpConflict*, measures the within-firm political ideology conflict among all the employees. Similar to Equation 1, I control for a set of time-varying firm-level characteristics along with firm and year fixed effects.[6] The standard errors are clustered by firm and year.

Table 3 Panel B reports the estimation results. Column 1 does not include any controls except firm and year fixed effects. Column 2 and 3 include firm-level control variables. Additionally, industry fixed effects are included in Column 3. The coefficients of *EmpConflict* are significantly negative in all specifications, suggesting that there is a negative association between within-employee political ideology

[5] 12.9% of firms in the baseline sample have more than one historical SIC codes. Therefore, firm fixed effects do not subsume industry fixed effects in the model.

[6] Since the CEOs are not on one side of the conflict by themselves in the contexts of conflict among all employees, and including CEO characteristics significantly reduces the sample size, I do not include CEO controls in this model.

conflict and firm performance. By definition, *EmpConflict* is a score ranging from 1 to 5. A higher score means the firm has larger conflicts among employees. Therefore, the coefficient estimate in Column 3 indicates that a firm with the highest within-employee political ideology conflicts (with more than 40% strong Republican employees and more than 40% strong Democratic employees) has a 0.8% lower *ROA* compared to a firm with the lowest conflicts (with less than 10% strong Republican employees or less than 10% strong Democratic employees).

4.3 CEO-Employee Political Ideology Conflicts in Different Ranks

Baseline results show that the CEO-employee political ideology conflict has a negative impact on firm performance. However, the magnitude of the impact could be different for employees in different ranks for several reasons. First, as shown by the summary statistics in Table 1 and Table 2, employees in higher ranks are, on average, more active in political participation, more Republican oriented, and closer to their CEOs in terms of political ideology. Second, key employees are more likely to work close to their CEOs and have a greater chance of exposure to their CEOs' political ideology. Third, employees in higher ranks may have a larger impact on firm performance. Therefore, it would be interesting to separately examine the impact of CEO-employee political ideology conflicts for employees in different ranks.

I identify the key employees using information from Execucomp and Capital IQ People Intelligence database. An employee is defined as a key employee if her name matches the name of a non-CEO employee in Execucomp and Capital IQ. I then calculate the CEO-key employee conflicts (*CEOkeyDiff*) and CEO-rank-and-file employees' conflicts (*CEOempRfDiff*), and regress *ROA* on the conflict measures separately. Table 4 presents the results. Column 1 and 4 show that both CEO-key employee conflicts and CEO-rank-and-file employee conflicts, respectively, have a significantly negative association with firm performance. The coefficient measure is more significant, both economically and statistically, for the key employees' conflict measure.

Lee, Lee, and Nagarajan (2014) argue that the political ideology alignment between CEO and board members have a negative impact on firm value as it increases managerial entrenchment. Since some key employees are also board members, there may be a confounding effect in the findings on the impact of CEO-key employees' political ideology conflict and firm performance. Thus, I further separate key employees into two groups: those who also serve as the firms' board members and those who do not. In Table 4 Column 2 and 3, I regress *ROA* on the conflict measures of board members (*CEOboardDiff*) and non-board key employees (*CEOkeyNbDiff*), respectively. Results show that there is a significant negative association between firm performance and CEO-non-board key employee conflicts. However, the association between firm performance and CEO-board member conflicts is weak and insignificant, which is consistent with the findings in Lee, Lee, and Nagarajan (2014). That is, while the difference between the CEOs' and the board members' political ideology decreases *ROA* in terms of conflict, it increases the strength of the board members' monitoring, which reduces managerial entrenchment and improves the firm performance. The two opposite effects are likely to cancel out, resulting in the insignificant coefficient on CEO-board member political ideology conflicts.

5. Subsample Analysis

In this section, I conduct subsample analysis based on employees' geographical concentration, sophistication, and political activism to explore the cross-sectional heterogeneity in the relation between employees' political ideology conflict and firm performance.

5.1 Cross-sectional Heterogeneity in Employee Geographical Concentration

When employees live and worker closer to each other, they interact and communicate more often, and have higher change of getting involved in political conversation with each other. They are also more

easily to unite against the CEO if the CEO's political ideology is inconsistent with theirs. Thus, I hypothesize that the association between CEO-employee political ideology conflicts and firm performance is stronger if the firm's employees are more geographically concentrated. To proxy for employees' geographical concentration, I construct a Herfindahl Index of the donating employees' state of residence using the following formula:

$$HHIstate_{i,t} = \sum_{s=1}^{S} \left(\frac{N\_emp_{i,s,t}}{N\_emp_{i,t}}\right)^2 \qquad (2)$$

For each firm *i* in year *t*, I locate each donating employee's state of residence using her address provided by FEC. For each state *s*, I calculate the percentage of donating employees from firm *i* in year *t* living in the state. The Herfindahl Index (*HHIstate*) is the sum of the squares of the percentages of employees living in the states. A larger value of *HHIstate* means that the firm's employees are more geographically concentrated. I calculate the median *HHIstate* by year and separate my sample of firm-years into two groups based on their *HHIstate*. Then I re-estimate the OLS regression from Table 3 Column 4 separately for the two groups and report the results in Table 5 Panel A. Column 1 reports the results in the high *HHIstate* group. Column 2 reports the results in the low *HHIstate* group. As predicted, the coefficient on CEO-employee political ideology conflicts measure is large and significant in the high geographical concentration group but small and insignificant in the low geographical concentration group.

An alternative measure of employee geographical concentration is the percentage of a firm's employees living near the firm's headquarter. If a firm has a large group of employees living near the headquarter, they not only interact with each other more often on political orientation, but also have a higher change of exposure to their CEO's political ideology. Thus, I hypothesize that the association between CEO-employee political ideology conflicts and firm performance is stronger for firms with more employees living near the headquarter.

Empirically, I identify the firms' historical headquarter location from their 10-K filings. Then, for firm *i* in year *t*, I calculate the percentage of employees living in the state where the firm's headquarter is

located (*HqStatePct*). I divide the sample into two subsamples based on the median of *HqStatePct* by year, and conduct the baseline analysis in the subsamples separately. The results are reported in Table 5 Panel A. Column 3 and 4 report the results for the high and low *HqStatePct*, respectively. Consistent with the prediction, the coefficient on CEO-employee political ideology conflict measure is large and significant in the high *HqStatePct* group but small and insignificant in the low *HqStatePct* group.

5.2 Cross-sectional Heterogeneity in Employee Sophistication

The association between CEO-employee political ideology conflicts and firm performance should be more pronounced if a firm's employees are more sophisticated because of two reasons. First, more sophisticated employees contribute more to the firm's operating performance. Second, more sophisticated employees are more likely to have stronger political orientation and more likely to have a larger reaction when their CEO expresses different opinions. To empirically test the hypothesis, I conduct subsample analysis based on two measures of employee sophistication.

First, I construct the industry-level labor skill index (*LSI*) following Belo et al. (2017) and Ghaly, Dang, and Stathopoulos (2017). I obtain the classification of occupations based on skill level from the U.S. Department of Labor's O*NET program and industry-level employee occupation information from the Bureau of Labor Statistics (BLS). The variable of interest, *LSI*, is defined as

$$LSI_i = \sum_{j=1}^{O}(E_{j,i} * Z_j), \qquad (3)$$

where $E_{j,I}$ is the percentage of employees in industry i working in occupation j, O is the total number of occupations in industry I, and Z_j is the skill level of occupation j. A higher value of *LSI* means that the industry has a higher average employee skill level.

I assign the industry level *LSI* to each firm-year and separate the sample into two groups based on the median *LSI* by year. The baseline OLS results estimated separately in the two subsamples are reported

in Table 5 Panel B. Column 1 reports the results in the high *LSI* group. Column 2 reports the results in the low *LSI* group. Consistent with the prediction, the coefficient on *CEOempDiff* is large and significant in the high *LSI* group but small and insignificant in the low *LSI* group.

The second measure of employee sophistication is employee to asset ratio (*EmpAsset*), defined as the number of employees divided by total assets. Both variables are from Compustat. A higher *EmpAsset* means that, on average, an employee is accountable for more assets, and possibly a larger portion of operating performance. I report the subsample analysis based on the median *EmpAsset* by year in Table 5 Panel B. Column 3 and 4 report the results in the high and low *EmpAsset* subsamples, respectively. Consistent with the hypothesis, the coefficient on *CEOempDiff* is large and significant in the high *EmpAsset* group but small and insignificant in the low *EmpAsset* group.

5.3 Cross-sectional Heterogeneity in Employee Political Activism

The association between CEO-employee political ideology conflicts and firm performance should be more pronounced for firms with employees more actively participating in political activities. More politically active employees have stronger political orientation and are more likely to react badly to their CEOs' different opinions. To study the cross-sectional heterogeneity in employee political activism, I conduct subsample analysis based on the firms' number of donating employees (*N_emp*) and number of donating key employees (*N_key*) separately.

Table 5 Panel C reports the results of the subsample analysis. Column 1 and 2 report the regressions of *ROA* on *CEOempDiff* in the high and low *N_emp* subsamples, respectively. As predicted, the coefficient on CEO-employee political ideology conflicts is large and significant in the high *N_emp* subsample but small and insignificant in the low *N_emp* subsample. Column 3 and 4 report the regressions of *ROA* on *CEOkeyDiff* in the high and low *N_key* subsamples, respectively. The coefficient on *CEOkeyDiff* is large and significant in the high *N_key* subsample but small and insignificant in the low *N_key* subsample.

6. Labor Productivity and Employee Turnover

Baseline results suggest that there is a negative association between employees' political ideology conflict and firm performance. In this section, I examine the potential channels of the impact. Edmans (2011) suggests that employee satisfaction increases firm value by increasing labor productivity and reducing employee turnover. Oswald, Proto, and Sgroi (2015) argue that people's happiness increases their productivity. Employee satisfaction is low when political ideology conflict is high. Thus, I hypothesize that employees' political ideology conflict has a negative impact on firm performance by decreasing labor productivity and inducing abnormal employee turnover.

6.1 Impact of Employees' Political Ideology Conflict on Labor Productivity

I proxy for firm-level labor productivity by *LaborProd*, defined as the natural logarithm of sales scaled by total number of employees. I regress *LaborProd* on *CEOempDiff*, *CEOkeyDiff*, *CEOboardDiff*, *CEOkeyNbDiff*, *CEOempRfDiff*, and *EmpConflict* separately. In addition to the firm-level and CEO-level controls included in the baseline regressions, I control for labor input (*LnEmp*) and asset intensity (*AssetInt*) that are shown by researchers to have an impact on labor productivity (e.g., Kale, Ryan Jr., and Wang, 2016). The coefficient estimates are reported in Table 6. The results suggest that both CEO-employee and within-employee political ideology conflicts have a significant negative association with labor productivity. In addition, the coefficients are marginally significant on *CEOkeyDiff* and *CEOempRfDiff*, but insignificant on *CEOboardDiff* and *CEOkeyNbDiff*.

I further provide more detailed evidence on the association between employees' political ideology conflict and labor productivity at individual employee level. More specifically, I examine the association between individual inventors' innovation output and the political ideology conflict between the inventors

and their CEO. Patent and inventor information are obtained from National Bureau of Economic Research (NBER) and Harvard Business School (HBS) patent database. I match the inventors' names to the names of donating employees in FEC data. For each inventor-year, I measure the inventor's productivity by log number of patents filed (*LnPatent*) and log average number of citations received per patent (*LnCitePat*) in the year. I also calculate the absolute value of the distance between the inventor and the CEO's democratic tendency (*CEOinventorDiff*) to proxy for the conflict between the inventor and her CEO.

Table 7 presents the regression analysis of inventor productivity on *CEOinventorDiff*. Column 1 and 3 control for a vector of firm-level and CEO-level characteristics, along with firm and year fixed effects. The coefficients on *CEOinventorDiff* indicate that the political ideology conflict between the CEOs and the inventors is associated with lower quantity and quality of works done by the inventors. For robustness check, I further include inventor-firm fixed effects following Liu, Mao, and Tian (2017) to control for unobserved heterogeneity at inventor level. The results are reported in Column 2 and 4. The coefficients on *CEOinventorDiff* are significant after including inventor-firm fixed effects.

6.2 Impact of Employees' Political Ideology Conflict on Employee Turnover

Another channel through which employees' political ideology conflict can affect firm performance is inducing abnormal employee turnover. An employee can choose to leave a firm if she has large conflict with the CEO or other employees. It is costly for firm to replace workers due to labor market frictions. The adjustment costs could eventually be reflected in firm performance. Thus, I hypothesize that employees' political ideology conflict affects firm performance negatively by inducing abnormal employee turnover.

Empirically, I identify employee turnover using Capital IQ People Intelligence data. For each key employee, Capital IQ provides the date when the employee left the firm. For each key employee-year, *Leave* is defined as a dummy variable which takes the value of 1 if the employee left the firm during the year and 0 otherwise. I calculate each key employee's conflict with the CEO and with other employees separately.

KeyCEODiff (*KeyEmpDiff*) is defined as the distance between the key employee and the CEO's (other employees') political ideology. In additional to firm-level and CEO-level controls, I control for two key employee-level characteristics. *Board* is a dummy variable which equals to 1 if the employee is a board member and 0 other wise. *KeyExec* is a dummy variable which equals to 1 if the employee is labeled as a key executive in Capital IQ and 0 otherwise.

Table 8 presents the regression results. Column 1 and 3 report the regressions with firm and year fixed effects. The coefficients on *KeyCEODiff* and *KeyEmpDiff* are both significant and positive, suggesting that there is a positive association between employees' political ideology conflict and the chance that the employees will leave the firm. However, due to the lack of employee-level information I can obtain from Capital IQ, the results could be driven by unobserved characteristics at employee level that are simultaneously correlated with employees' political ideology and likelihood to leave the firm. To alleviate the concern, I further control for employee-firm fixed effects in the regressions and report the results in Column 2 and 4. The coefficients on *KeyCEODiff* and *KeyEmpDiff* remain significant after controlling for employee-firm fixed effects.

Notably, an alternative explanation of the association between CEO-key employee political ideology conflicts and employee turnover is that the CEOs are more likely to fire the employees who differ from them in terms of political orientation. While I cannot observe whether the employee turnover is voluntary or involuntary, the alternative explanation does not change the implication of the results. That is, an increase in political ideology conflict increases the probability of abnormal employee turnover, which affects firm performance negatively.

7. Endogeneity Concerns and 2SLS Analysis

While the OLS results suggest that there is a negative association between employees' political ideology conflict and firm performance, several endogeneity concerns arise when interpreting the results.

First, there could be omitted variables that are simultaneously correlated with political ideology conflict and firm performance. For example, Babenko, Fedaseyeu, and Zhang (2018) suggest that CEOs exert influence on their employees' political choices in order to increase shareholder value. If that is the case, the CEOs' incentives could drive both political ideology conflicts and firm performance. Also, entrenched CEOs may have the power to hire employees who are more aligned with them in terms of political ideology, and CEO entrenchment is also correlated with firm performance. Second, the results could be due to reverse causality. That is, worse firm performance could lead to separation in political ideology of the CEO and the employees.

To at least partially address the endogeneity concerns, the independent variables are lagged by 1 year in all the regressions. However, an exogenous variation in employees' political ideology conflict is needed in order to establish causality. In this section, I use the acquisitions of local television stations by Sinclair Broadcast Group as the source of exogenous variation in political ideology conflict and implement a 2-stage least squares (2SLS) design to establish causality.

7.1 The Acquisitions of Local Television Stations by Sinclair Broadcast Group

Sinclair Broadcast Group (Sinclair) is the largest television station operator in the United States in terms of number of stations (191 stations) and total coverage (89% of U.S. markets).[7] The acquisitions of local television stations are made over a span of more than 30 years, starting in 1984. Sinclair is well known to have strong conservative orientation and has long been criticized for pushing conservative news coverage and commentary. For example, in March 2018, journalists from all the local television stations owned by Sinclair across the whole country were asked by Sinclair to read the same script supporting President Donald Trump's Twitter feed regarding "biased and false news" (Glaser, 2018). Using textual analysis on

[7] Information obtained from the official website of Sinclair Broadcast Group at http://sbgi.net/.

television news scripts, Martin and McCrain (2018) document a significant rightward shift in the ideological slant of coverage after local television stations are acquired by Sinclair.

Researchers have shown that mass media has strong persuasive effects and often affects people's political orientation. Using voting data in presidential elections, DellaVigna and Kaplan (2007) show that Republicans gained vote share in towns where Fox News entered the cable markets. Martin and Yurukoglu (2017) show that Fox News increases Republican vote shares by 0.3 points among viewers induced into watching 2.5 additional minutes per week. According to a survey conducted by Pew Research Center, 37% of U.S. adults often get news from local television, which is larger than the population who often get news from cable television (28%).[8] Therefore, the acquisitions of local television stations by Sinclair, a firm with strong political orientation, is likely to have a strong Republican-oriented impact on local people's political ideology.

There is no evidence suggesting that the acquisitions by Sinclair are correlated with local economic conditions. Moreover, since a firm's employees may live in various locations across the whole country, and the acquisitions by Sinclair occur in individual employees' cities of residence, it is hard to believe that Sinclair tries to affect the firm's performance by tracking its employees' living addresses and acquire the local television stations or that the Sinclair acquisitions are driven by the firm's performance.[9] Thus, the Sinclair acquisitions provide a unique setting for my analysis as it directly impacts employees' political ideology but not firm performance. Empirically, I conduct a 2SLS analysis, using Sinclair acquisitions to predict employees' political ideology conflicts and then regressing firm performance on the predicted conflicts.

[8] Information obtained from the website of Pew Research Center at http://www.pewresearch.org/fact-tank/2018/01/05/fewer-americans-rely-on-tv-news-what-type-they-watch-varies-by-who-they-are/ft_18-01-04_localtv_demographic/.

[9] In the full sample, 16.6% of employees live in the city where their employer's headquarter is located in.

7.2 2SLS Analysis

Starting from 1984, Sinclair has made 163 acquisitions in 96 designated market areas (DMA). I obtain the acquisition information from RabbitEars, a website which provides detailed and comprehensive information on media market in the United States. For the employees in my sample, I match each employee's city of residence to the DMA it belongs to using the DMA-county/city matching information obtained from Wikipedia.[10] For each non-CEO employee-year, I identify if a Sinclair acquisition happened in the employee's city of residence in the year. Then, for each firm-year, I calculate the percentage of non-CEO employees who are affected by a Sinclair acquisition (*Sinclair*). *Sinclair* captures the aggregate Republican-oriented ideological influence exerted on a firm's employees by Sinclair acquisitions. I lag *Sinclair* by 2 years since the ideology measures are calculated using donations in a 2-year rolling window. Intuitively, a Sinclair acquisition happened in an employee's city of residence in Year -2 affects the employee's political ideology and changes her donating pattern in Year -1 and 0.

To show that the Sinclair acquisitions cause a rightward shift in non-CEO employees' political ideology, I regress firm's average non-CEO employee' democratic tendency (*DEMemp*) on *Sinclair*. In addition to firm-level and CEO-level controls, I include a set of local-level controls from employees' state of residence, aggregated at firm level. Definitions of the variables are provided in Appendix A. The results are reported in Column 1 of Table 9 Panel A. The coefficient on *Sinclair* is significant and negative, suggesting that the Sinclair shock makes non-CEO employees more Republican-oriented.

The rightward shift in non-CEO employees' political ideology should decrease CEO-employee political ideology conflict because of two reasons. First, as shown in Table 1, CEOs are more Republican-oriented than non-CEO employees on average.[11] I further exclude the firm-years with strong Democratic CEOs *(DEMCEO*>0.8) in the tests as the rightward shifts in these firms' non-CEO employees' political ideology are likely to push them away from the CEOs' political ideology. Second, since the Sinclair shock

[10] Information obtained from Wikipedia at https://en.wikipedia.org/wiki/List_of_United_States_television_markets.
[11] Consistent with the findings in Babenko, Fedaseyeu, and Zhang (2018), and Cohen et al. (2019).

is aggregated from the non-CEO employees' city of residence, CEOs should be less sensitive to the shock, despite that some non-CEO employees may live in the same city as the CEO.[12] To provide empirical evidence supporting the second argument, I regress CEOs' democratic tendency (*DEMCEO*) on *Sinclair*. Results are presented in Column 2 of Table 9 Panel A. Indeed, the effect of *Sinclair* on CEOs' political ideology is insignificant. Therefore, a rightward shift of non-CEO employees' political ideology should push it closer to the CEOs' political ideology. I formally test the hypothesis by regressing *CEOempDiff* on *Sinclair*. The results are presented in Column 3 of Table 9 Panel A. As expected, the Sinclair shock decreases CEO-employees political ideology conflicts.

To test the impact of an exogenous variation in CEO-employee political ideological conflicts on firm performance, I conduct a 2SLS analysis. In the first stage, which is reported in Column 3 of Table 9 Panel A, I regress *CEOempDiff* on *Sinclair* and the controls variables at firm level, CEO level, and local level. In the second stage, I regress *ROA* on the predicted value of *CEOempDiff* and the control variables. Results of the second stage are reported in Column 2 of Table 9 Panel B. The coefficient on *CEOempDiff* is negative and significant, suggesting that the exogenous decrease in CEO-employee political ideology conflicts has a positive impact on firm performance.

Due to the exclusion of firms with strong Democratic CEOs and the fact that some employees' cities of residence reported in FEC data are missing or cannot be matched to a DMA, the number of observations in the 2SLS test is smaller than that in the baseline OLS tests. Therefore, I re-estimate the baseline OLS in the sample used for the 2SLS tests and report the results in Column 1 of Table 9 Panel B for comparison to the 2SLS estimates. The coefficient on *CEOempDiff* remains significant in the sample.

The Republican-oriented political ideology pressure by Sinclair acquisitions should also reduce within-employee political ideology conflicts since it increases the percentage of strong Republican employees while decreases the percentage of strong Democratic employees. Therefore, I conduct a 2SLS

[12] In the full sample, 12.5% of employees live in the same city as their CEOs.

analysis on the association between within-employee political ideology conflicts and firm performance similar to the one conducted on CEO-employee conflicts. In the first stage, I regress *EmpConflict* on *Sinclair* and a set of firm-level and local-level controls. The coefficient on *Sinclair* is negative and significant, which is consistent with the prediction that Sinclair acquisitions reduce within-employee political ideology conflicts. I then regress *ROA* on the predicted value of *EmpConflict* and report the results in Column 4 of Table 9 Panel B. The OLS results estimated in the same sample are reported in Column 3 for comparison. Although the coefficient on *EmpConflict* in the 2SLS test is negative and similar to the OLS estimate in economic magnitude, it is statistically insignificant, suggesting that the negative association between *EmpConflict* and firm performance may be endogenous.

8. Conclusion

Despite the public attention to workplace political ideology conflicts and their negative consequences, there is a lack of evidence on the association between employees' political ideology conflicts and firm performance. This paper fills in the gap by measuring employees' political ideology conflicts using individual campaign donation data and explicitly studying the association between the conflicts and future operating performance.

I find that both the political ideology conflicts between the CEOs and employees and that among employees are negatively associated with future operating performance. Subsample analysis shows that the association is stronger for firms with more geographically concentrated, more sophisticated, and more politically active employees. Further, I show that employees' political ideology conflicts affect firm performance negatively by decreasing labor productivity and inducing abnormal employee turnover. Using the acquisitions of local television stations by Sinclair Broadcast Group as a source of exogenous variation in employees' political ideology, I establish causality between CEO-employee political ideology conflicts and firm performance.

Overall, my paper suggests that employees' political ideology conflicts have a negative impact on firm performance, shedding new light on the importance of within-firm labor heterogeneity and labor-management relationship.

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Appendix A: Definition of Variables

Variables	Definition
DEM%	The dollar amount of capaign donations to Democratic recipients divided by the dollar amount of donations to both Democrats and Republicans made by an employee in year *t* and *t-1*.
DEMCEO	For each firm-year, *DEMCEO is defined as the DEM%* of the firm's CEO in the year.
DEMemp	The average *DEM%* of non-CEO employees.
DEMkey	The average *DEM%* of non-CEO key employees. Key employees are identified using information from Execucomp and Capital IQ.
DEMboard	The average *DEM%* of non-CEO key employees who also serve as board members.
DEMkeyNb	The average *DEM%* of non-CEO key employees who do not serve as board members.
DEMempRf	The average *DEM%* of rank-and-file employees.
CEOempDiff	The absolute value of the difference between *DEMCEO* and *DEMemp*.
CEOkeyDiff	The absolute value of the difference between *DEMCEO* and *DEMkey*.
CEOboardDiff	The absolute value of the difference between *DEMCEO* and *DEMboard*.
CEOkeyNbDiff	The absolute value of the difference between *DEMCEO* and *DEMkeyNb*.
CEOempRfDiff	The absolute value of the difference between *DEMCEO* and *DEMempRf*.
EmpConflict	A score ranging from 1 to 5 assigned to each firm-year based on the percentages of strong Republican employees and strong Democratic employees in the firm-year.
ROA	The ratio of operating income before depreciation (OIBDP) to book value of total assets (AT).
MB	Market value of equity (PRCC_F*CSHO) plus book value of total assets (AT) minus book value of equity (CEQ) minus deferred taxes (TXDB) (set to zero if missing) divided by book value of total assets.
Lev	Book value of long-term debt (DLTT) divided by book value of total assets (AT).
Size	The natural logarithm of book value of total assets (AT).
CAPEX	Capital expenditures (CAPX) divided by net property, plant, and equipment (PPENT).
PPE	Net property, plant, and equipment (PPENT) divided by book value of total assets (AT).
RD	Research and development expenses (XRD) (set to zero if missing) divided by book value of total assets (AT).
FirmAge	The natural logarithm of a firm's age, approximated by the number of years listed on Compustat.
CEOchair	A dummy variable which equals 1 if the CEO also serves as the chairman of board of directors and 0 otherwise.
CEOpay	The natural logarithm of sum of the CEO's total current compensation (salary + bonus).
CEOtenure	The natural logarithm of the CEO's tenure.
HHIstate	The Herfindahl Index of employees' state of residence.
HqStatePct	The percentage of employees who live in the state where their firm's headquarter is located.
LSI	Labor skill index, defined as the weighted average skill level of occupations in a industry (SIC3 for pre-2002 period and NAICS4 for 2002 and beyond).
EmpAsset	The number of employees (EMP) divided by book value of total assets (AT).

N_emp	The number of employees who made at least one campaign contributions in year *t*.
N_key	The number of key employees who made at least one campaign contributions in year *t*.
LaborProd	Labor productivity, defined as the natural logarithm of sales (SALE) divided by number of employees (EMP).
LnEmp	The natural logarithm of number of employees (EMP).
AssetInt	Asset intensity, defined as the natural logarithm of book value of total assets (AT) divided by number of employees (EMP).
CEOinventorDiff	The absolute value of the difference between an inventor's *DEM%* her CEO's *DEM%*.
LnPatent	The natural logarithm of number of patents filed by an inventor in year *t*.
LnCitePat	The natural logarithm of average number of citations received by patents filed by an inventor in year *t*.
Leave	A dummy variable which equals 1 if a key employee leaves her firm in year *t* and 0 otherwise.
KeyCEODiff	The absolute value of the difference between the key employee's *DEM%* and her CEO's *DEM%*.
KeyEmpDiff	The absolute value of the difference between the key employee's *DEM%* and that of the other employees in her firm.
Sinclair	The percentage of a firm's employees who are affected by a Sinclair acquisition in their city of residence.
DEMstate	The weighted average of voting shares received by Democrats in the most recent election in a firm's employees' state of residence.
ChgGDP	The weighted average of percentage change in GDP in a firm's employees' state of residence from year *t-1* to *t*.
PersonalIncome	The natural logarithm of the weighted average personal income in a firm's employees' state of residence.
Unemployment	The unemployment rate in a firm's employees' state or residence.

Figure 1: Illustration of Within-Employee political Ideology Conflict Measure

This figure depicts the construction of *EmpConflict*, the measure of within-employee political ideology conflicts. *%StrongREP* and *%StrongDEM* are the percentages of strong Republican employees and strong Democratic employees, respectively, in a firm-year. An employee is defined as strong Republican (Democratic) if she donates more than $2,000 to only Republican (Democratic) recipients in the two-year window. The possible combinations of *%StrongREP* and *%StrongDEM* for a firm can be illustrated in the right triangle. The triangle is divided into five areas, each assigned with a *EmpConflict* score. A higher score represents higher within-employee political ideology conflicts.

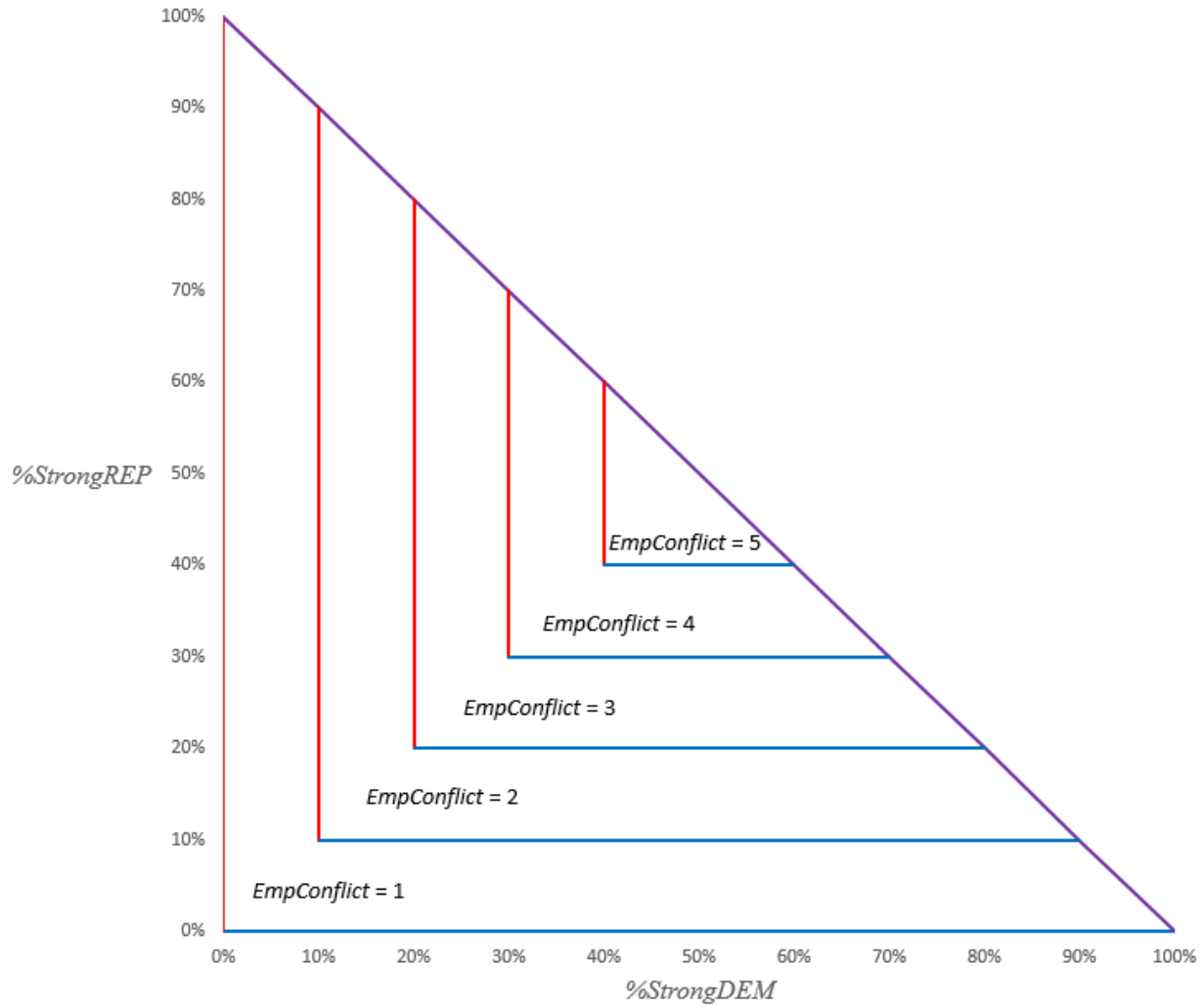

Table 1: Summary Statistics of Person-level Political Ideology Variables

This table reports the summary statistics of political ideology variables constructed at person-year level by employee ranks using individual campaign donation data provided by Federal Election Commission (FEC) and key executive information from Execucomp and Capital IQ. Panel A reports the summary statistics of employees' campaign donations. Column 1 reports the number of person-year observations for each rank. Column 2 reports the average dollar amount of donation made by an individual in a two-year rolling window. Column 3 reports the mean of Democratic tendency (DEM%). Panel B reports the distribution of DEM% within each employee rank.

Panel A: Summary Statistics of Employees' Campaign Donations

Rank	# Person-years	Mean $ of donation	Mean DEM%
	(1)	(2)	(3)
CEO	22,408	27,125.16	35.54%
Board	15,953	22,446.23	37.67%
Nonboard key	83,097	6,963.97	44.13%
Rank-and-file	516,688	2,685.66	51.94%

Panel B: Distribution of Employees' Political Ideology

Rank	DEM%						
	0%	(0%,25%]	(25%,50%)	50%	(50%,75%)	[75%,100%)	100%
CEO	43.46%	12.58%	8.80%	1.84%	6.98%	6.75%	19.58%
Board	43.87%	10.14%	8.04%	1.89%	7.08%	6.81%	22.18%
Nonboard key	43.45%	5.90%	5.70%	2.61%	4.93%	4.23%	33.20%
Rank-and-file	44.13%	1.79%	1.77%	0.94%	1.64%	1.40%	48.33%

Table 2: Summary Statistics of Main Dependent and Independent Variables

Panel A reports the summary statistics of political conflict variables at firm-year level. *CEOempDiff*, *CEOkeyDiff*, *CEOboardDiff*, *CEOkeyNbDiff*, and *CEOempRfDiff* are the political ideology conflicts between CEO and all non-CEO employees, key employees, board members, non-board key employees, and rank-and-file employees, respectively. *EmpConflict* is a score which indices within-employee political ideology conflicts. Panel B reports the summary statistics of firm performance and control variables. All the continuous variables in Panel B are winsorized at the 1st and 99th percentiles. Detailed definitions of all the variables are presented in Appendix A.

Panel A: Summary Statistics of Employee Political Ideology Conflict Variables

Variable	Mean	SD	Min	p25	Median	p75	Max	N
CEOempDiff	30.95%	30.23%	0.00%	4.17%	22.84%	50.00%	100.00%	14,952
CEOkeyDIff	27.73%	30.63%	0.00%	0.90%	16.82%	44.55%	100.00%	9,579
CEOboardDiff	26.99%	29.80%	0.00%	2.16%	16.33%	42.86%	100.00%	3,487
CEOkeyNbDiff	28.54%	31.00%	0.00%	1.00%	17.96%	46.45%	100.00%	8,400
CEOempRfDiff	33.14%	31.13%	0.00%	5.11%	25.00%	50.00%	100.00%	13,073
EmpConflict	2.69	2.34	1	1	3	4	5	6,841

Panel B: Summary Statistics of ROA and Control Variables

Variable	Mean	SD	Min	p25	Median	p75	Max	N
ROA	0.046	0.292	-2.314	0.016	0.078	0.164	0.672	13,092
MB	1.978	1.959	0.593	1.010	1.247	2.065	13.253	13,092
Lev	0.227	0.233	0.000	0.033	0.166	0.352	1.226	13,092
Size	5.472	2.163	0.484	3.968	5.359	6.883	11.088	13,092
CAPEX	0.068	0.113	0.000	0.005	0.028	0.077	0.705	13,092
PPE	0.269	0.314	0.000	0.030	0.141	0.405	1.449	13,092
RD	0.053	0.130	0.000	0.000	0.000	0.037	0.833	13,092
FirmAge	2.428	0.828	0.000	1.792	2.485	3.045	4.043	13,092
CEOchair	0.515	0.500	0.000	0.000	1.000	1.000	1.000	12,612
CEOpay	6.218	1.165	0.000	5.827	6.284	6.802	8.613	11,780
CEOtenure	1.724	0.917	0.000	1.099	1.792	2.398	4.043	13,092

Table 3: Regression of Firm Performance on Employees' political Ideology Conflict

This table reports the OLS regression results of firm performance (*ROA*) on employees' political ideology conflict measures. Panel A analyzes the impact of CEO-employee political ideology conflicts (*CEOempDiff*) on firm performance. Column 1 includes no controls except firm and year fixed effects. Column 2 includes firm-level controls. Column 3-4 include firm-level and CEO-level controls. Firm and year fixed effects are included in all columns. In addition, Column 4 includes industry (SIC4) fixed effects. Panel B analyzes the impact of within-employee political ideology conflicts (*EmpConflict*) on firm performance. Column 1 includes no controls except firm and year fixed effects. Column 2 and 3 include firm-level controls. Firm and year fixed effects are included in all columns. In addition, Column 3 include industry (SIC4) fixed effects. Definitions of the variables are provided in Appendix A. All independent variables are lagged by 1 year. Robust standard errors, clustered by firm and year, are reported in parentheses. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% level, respectively.

Panel A: Regression of Firm Performance on CEO-Employee Political Ideology Conflicts

Dep. Var.	*ROA*			
	(1)	(2)	(3)	(4)
CEOempDiff	-0.018***	-0.014***	-0.015***	-0.015***
	(0.006)	(0.005)	(0.005)	(0.005)
MB		0.009**	0.009**	0.010**
		(0.004)	(0.004)	(0.004)
Lev		-0.047*	-0.044*	-0.043*
		(0.024)	(0.024)	(0.025)
Size		-0.011	-0.012	-0.013
		(0.008)	(0.008)	(0.008)
CAPEX		0.048	0.044	0.047
		(0.049)	(0.049)	(0.052)
PPE		0.051**	0.048**	0.046**
		(0.019)	(0.019)	(0.020)
RD		-0.294***	-0.292***	-0.296***
		(0.088)	(0.088)	(0.080)
FirmAge		-0.002	-0.008	-0.012
		(0.012)	(0.012)	(0.012)
CEOchair			0.010*	0.013**
			(0.006)	(0.006)
CEOpay			0.016***	0.018***
			(0.003)	(0.004)
CEOtenure			0.004*	0.004*
			(0.002)	(0.003)
Firm FE	Yes	Yes	Yes	Yes
Industry FE	No	No	No	Yes
Year FE	Yes	Yes	Yes	Yes
Observations	11,277	10,678	10,678	10,445
Adj. R-squared	0.751	0.767	0.770	0.780

Panel B: Regression of Firm Performance on Within-Employee Political Ideology Conflicts

Dep. Var.	*ROA*		
	(1)	(2)	(3)
EmpConflict	-0.003***	-0.002**	-0.002**
	(0.001)	(0.001)	(0.001)
MB		0.026***	0.025***
		(0.005)	(0.005)
Lev		-0.022	-0.034
		(0.021)	(0.027)
Size		-0.025***	-0.033***
		(0.007)	(0.007)
CAPEX		-0.004	-0.003
		(0.085)	(0.103)
PPE		0.065**	0.061*
		(0.030)	(0.036)
RD		-0.244***	-0.211**
		(0.089)	(0.083)
FirmAge		-0.004	-0.009
		(0.009)	(0.010)
Firm FE	Yes	Yes	Yes
Industry FE	No	No	Yes
Year FE	Yes	Yes	Yes
Observations	5,668	5,127	4,805
Adj. R-squared	0.766	0.744	0.756

Table 4: Regression of Firm Performance on Employee Political Ideology Conflict in Different Ranks

This table reports the OLS regression results of firm performance (*ROA*) on employees' political ideology conflict in different ranks. *CEOkeyDiff*, *CEOboardDiff*, *CEOkeyNbDiff*, and *CEOempRfDiff* are the political ideology conflict between CEO and key employees, board members, non-board key employees, and rank-and-file employees, respectively. Definitions of the variables are provided in Appendix A. All independent variables are lagged by 1 year. All columns include firm, industry, and year fixed effects. Robust standard errors, clustered by firm and year, are reported in parentheses. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% level, respectively.

Dep. Var.	*ROA*			
	(1)	(2)	(3)	(4)
CEOkeyDiff	-0.013***			
	(0.005)			
CEOboardDiff		-0.006		
		(0.009)		
CEOkeyNbDiff			-0.014**	
			(0.005)	
CEOempRfDiff				-0.011*
				(0.005)
MB	0.019***	0.015**	0.020***	0.011***
	(0.003)	(0.006)	(0.004)	(0.004)
Lev	-0.011	-0.026	-0.020	-0.040
	(0.018)	(0.027)	(0.022)	(0.024)
Size	-0.025***	-0.023*	-0.029***	-0.019**
	(0.007)	(0.014)	(0.007)	(0.008)
CAPEX	-0.031	0.041	-0.054	0.050
	(0.062)	(0.072)	(0.071)	(0.056)
PPE	0.055***	0.007	0.042*	0.033
	(0.018)	(0.026)	(0.023)	(0.022)
RD	-0.259***	0.088	-0.296***	-0.278***
	(0.055)	(0.141)	(0.064)	(0.089)
FirmAge	-0.009	0.006	-0.006	-0.012
	(0.012)	(0.025)	(0.012)	(0.013)
CEOchair	0.015**	0.013*	0.017***	0.015**
	(0.006)	(0.007)	(0.006)	(0.007)
CEOpay	0.015***	0.012***	0.014***	0.017***
	(0.004)	(0.004)	(0.004)	(0.004)
CEOtenure	0.005*	0.005	0.003	0.003
	(0.003)	(0.003)	(0.003)	(0.003)
Firm FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Observations	6,730	2,534	5,851	9,255
Adj. R-squared	0.805	0.838	0.808	0.771

Table 5: Subsample Analysis based on Geographical Concentration, Sophistication, and Political Activism of Employees

This table reports the subsample analysis based on the geographical concentration, sophistication, and political activism of employees. Employee geographical concentration is proxied by the percentage of employees living in the state where their employer is headquartered (*HqStatePct*) and the Herfindahl Index of the state of residence of the firm's employees (*HHIstate*). Employee sophistication is proxied by industry-level labor skill index (*LSI*) and employee to total asset ratio (*EmpAsset*). Employee political activism of all non-CEO employees and key employees are proxied by the number of donating employees (*N_emp*) and donating key employees (N_*key*) in a firm-year, respectively. In each panel, I divide the sample firms into two groups based on the medians of the measures each year and then perform the baseline OLS regressions on the subsamples separately. Definitions of the variables are provided in Appendix A. All independent variables are lagged by 1 year. All columns include firm, industry, and year fixed effects. Robust standard errors, clustered by firm and year, are reported in parentheses. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% level, respectively.

Panel A: Subsample Analysis based on Employee Geographical Concentration

Dep. Var.	*ROA*			
	High *HHIstate*	Low *HHIstate*	High *HqStatePct*	Low *HqStatePct*
	(1)	(2)	(3)	(4)
CEOempDiff	-0.026***	-0.006	-0.029***	-0.001
	(0.008)	(0.006)	(0.009)	(0.009)
MB	0.006	0.024***	0.012**	0.008
	(0.006)	(0.004)	(0.005)	(0.006)
Lev	-0.054	-0.011	-0.028	-0.045
	(0.052)	(0.021)	(0.030)	(0.038)
Size	-0.005	-0.027***	-0.008	-0.014*
	(0.012)	(0.007)	(0.013)	(0.008)
CAPEX	0.076	-0.072	0.007	-0.017
	(0.050)	(0.111)	(0.059)	(0.128)
PPE	0.045	0.055*	0.046	0.031
	(0.035)	(0.031)	(0.030)	(0.036)
RD	-0.331**	-0.211**	-0.353***	-0.234*
	(0.131)	(0.081)	(0.121)	(0.132)
FirmAge	0.002	-0.016	-0.004	-0.035**
	(0.017)	(0.013)	(0.020)	(0.016)
CEOchair	0.014	0.014**	0.013	0.013*
	(0.008)	(0.006)	(0.008)	(0.006)
CEOpay	0.017***	0.016***	0.020***	0.017***
	(0.005)	(0.004)	(0.006)	(0.005)
CEOtenure	0.008*	0.002	0.005	0.005
	(0.004)	(0.002)	(0.004)	(0.004)
Firm FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Observations	4,300	5,077	4,385	4,685
Adj. R-squared	0.820	0.769	0.821	0.779

Panel B: Subsample Analysis based on Employee Sophistication

Dep. Var.	*ROA*			
	High *LaborSkill*	Low *LaborSkill*	High *EmpAsset*	Low *EmpAsset*
	(1)	(2)	(3)	(4)
CEOempDiff	-0.024**	-0.006	-0.008	-0.016***
	(0.010)	(0.005)	(0.007)	(0.006)
MB	0.006	0.022***	0.008*	0.016***
	(0.006)	(0.006)	(0.004)	(0.006)
Lev	-0.061	-0.026	-0.040	-0.036
	(0.047)	(0.025)	(0.040)	(0.028)
Size	-0.006	-0.030*	-0.007	-0.033***
	(0.012)	(0.016)	(0.011)	(0.008)
CAPEX	0.159**	0.008	0.040	0.005
	(0.066)	(0.068)	(0.068)	(0.080)
PPE	0.064	0.016	0.071**	0.037
	(0.052)	(0.030)	(0.034)	(0.032)
RD	-0.268**	-0.005	-0.271***	-0.061
	(0.100)	(0.255)	(0.076)	(0.067)
FirmAge	-0.018	-0.001	-0.013	-0.002
	(0.026)	(0.019)	(0.019)	(0.011)
CEOchair	0.023**	-0.001	0.007	0.012*
	(0.009)	(0.007)	(0.007)	(0.007)
CEOpay	0.012***	0.013**	0.024***	0.011***
	(0.004)	(0.005)	(0.007)	(0.003)
CEOtenure	0.004	0.005*	0.009**	0.000
	(0.006)	(0.003)	(0.004)	(0.003)
Firm FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Observations	3,644	3,324	5,391	4,686
Adj. R-squared	0.783	0.856	0.827	0.724

Panel C: Subsample Analysis based on Employee Political Activism

Dep. Var.	*ROA*			
	High *N_emp*	Low *N_emp*	High *N_key*	Low *N_key*
	(1)	(2)	(3)	(4)
CEOempDiff	-0.024**	-0.011		
	(0.009)	(0.007)		
CEOkeyDiff			-0.024**	-0.009
			(0.009)	(0.011)
MB	0.026***	-0.004	0.024***	0.014*
	(0.004)	(0.005)	(0.005)	(0.007)
Lev	-0.001	-0.051	-0.016	0.000
	(0.018)	(0.045)	(0.019)	(0.049)
Size	-0.042***	0.012	-0.039***	0.001
	(0.007)	(0.012)	(0.010)	(0.013)
CAPEX	-0.129*	0.153***	-0.138	0.017
	(0.075)	(0.052)	(0.095)	(0.055)
PPE	0.067**	-0.015	0.032	0.068*
	(0.025)	(0.029)	(0.026)	(0.035)
RD	-0.243*	-0.270**	-0.036	-0.168
	(0.120)	(0.099)	(0.119)	(0.126)
FirmAge	-0.006	-0.007	-0.008	-0.024
	(0.012)	(0.018)	(0.019)	(0.021)
CEOchair	0.011**	0.005	0.016**	0.012
	(0.005)	(0.010)	(0.006)	(0.012)
CEOpay	0.010***	0.031***	0.009**	0.020**
	(0.003)	(0.007)	(0.003)	(0.008)
CEOtenure	0.003	0.004	0.005	0.005
	(0.003)	(0.005)	(0.003)	(0.006)
Firm FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Observations	5,038	4,889	2,754	2,033
Adj. R-squared	0.818	0.804	0.841	0.815

Table 6: Regression of Labor Productivity on Employee Political Ideology Conflict

This table analyzes the impact of employees' political ideology conflict on labor productivity at firm level. *LaborProd* is defined as the natural logarithm of sales scaled by total number of employees. Definitions of other variables are provided in Appendix A. All independent variables are lagged by 1 year. All columns include firm, industry, and year fixed effects. Robust standard errors, clustered by firm and year, are reported in parentheses. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% level, respectively.

Dep. Var.	*LaborProd*					
	(1)	(2)	(3)	(4)	(5)	(6)
CEOempDiff	-0.071**					
	(0.033)					
CEOkeyDiff		-0.074*				
		(0.037)				
CEOboardDiff			-0.020			
			(0.069)			
CEOkeyNbDiff				-0.058		
				(0.034)		
CEOempRfDiff					-0.061*	
					(0.033)	
EmpConflict						-0.014**
						(0.007)
LnEmp	-0.438***	-0.480***	-0.408***	-0.458***	-0.441***	-0.373***
	(0.096)	(0.103)	(0.116)	(0.107)	(0.099)	(0.096)
AssetInt	0.340***	0.279**	0.334***	0.288**	0.321***	0.406***
	(0.109)	(0.115)	(0.117)	(0.123)	(0.110)	(0.098)
MB	0.142***	0.140***	0.125***	0.142***	0.142***	0.134***
	(0.013)	(0.016)	(0.016)	(0.017)	(0.013)	(0.016)
Lev	-0.082	-0.137	-0.182	-0.106	-0.109	-0.108
	(0.087)	(0.093)	(0.147)	(0.100)	(0.093)	(0.101)
Size	0.264**	0.298**	0.203**	0.286**	0.267**	0.175*
	(0.099)	(0.106)	(0.096)	(0.116)	(0.101)	(0.091)
CAPEX	-0.197	-0.183	0.077	-0.249	-0.179	-0.114
	(0.220)	(0.233)	(0.382)	(0.252)	(0.259)	(0.456)
PPE	0.223**	0.143	0.084	0.077	0.207*	0.035
	(0.100)	(0.103)	(0.186)	(0.119)	(0.110)	(0.160)
RD	-1.295***	-1.171***	-0.822*	-1.449***	-1.249***	-1.360***
	(0.231)	(0.295)	(0.465)	(0.330)	(0.263)	(0.382)
FirmAge	-0.095*	-0.091	0.052	-0.124*	-0.113**	-0.143**
	(0.051)	(0.064)	(0.106)	(0.062)	(0.052)	(0.064)
CEOchair	0.053*	0.067**	0.056	0.058	0.055*	
	(0.030)	(0.031)	(0.051)	(0.034)	(0.031)	
CEOpay	0.106***	0.077***	0.067***	0.060***	0.096***	
	(0.021)	(0.017)	(0.020)	(0.020)	(0.020)	
CEOtenure	0.015	0.020	0.041*	0.016	0.020	
	(0.013)	(0.015)	(0.021)	(0.015)	(0.014)	
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	8,912	5,884	2,287	5,109	8,003	4,365
Adj. R-squared	0.884	0.896	0.909	0.896	0.881	0.891

Table 7: Regression of Innovation Output on CEO-Inventor Political Ideology Conflicts

This table analyzes the impact of employees' political ideology conflict on labor productivity at individual inventor level. For each inventor in Year *t*, I proxy for her productivity using the natural logarithm of number of patents filed by the inventor in the year (*LnPatent*) and the natural logarithm of average number of citations received per patent filed by the inventor in the year (*LnCitePat*). *CEOinventorDiff* is the political ideology conflict between the inventor and her CEO. Definitions of other variables are provided in Appendix A. All independent variables are lagged by 1 year. Column 1 and 3 include firm and year fixed effects. Column 2 and 4 include inventor-firm and year fixed effects. Robust standard errors, clustered by firm and year, are reported in parentheses. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% level, respectively.

Dep. Var.	*LnPatent*		*LnCitePat*	
	(1)	(2)	(3)	(4)
CEOinventorDiff	-0.301**	-0.551**	-0.382**	-0.560*
	(0.123)	(0.254)	(0.177)	(0.298)
MB	-0.003	-0.009	-0.004	-0.015
	(0.004)	(0.005)	(0.010)	(0.012)
Lev	-0.141	-0.143	-0.159	-0.173
	(0.165)	(0.184)	(0.235)	(0.223)
Size	0.036	0.057	0.023	-0.045
	(0.049)	(0.052)	(0.069)	(0.078)
CAPEX	0.770*	0.532	1.093	0.729
	(0.369)	(0.309)	(0.695)	(0.727)
PPE	0.118	0.017	-0.159	-0.026
	(0.313)	(0.263)	(0.434)	(0.485)
RD	-0.357*	-0.278	-0.038	-0.021
	(0.189)	(0.170)	(0.387)	(0.398)
FirmAge	-0.366*	-0.884***	-0.507	-1.070***
	(0.187)	(0.219)	(0.316)	(0.283)
CEOchair	-0.077	-0.092*	0.056	0.075
	(0.049)	(0.048)	(0.065)	(0.060)
CEOpay	-0.006	-0.004	0.018	0.020
	(0.024)	(0.014)	(0.012)	(0.015)
CEOtenure	0.036	0.055**	0.091**	0.125***
	(0.022)	(0.025)	(0.037)	(0.041)
Firm FE	Yes	No	Yes	No
Inventor-Firm FE	No	Yes	No	Yes
Year FE	Yes	Yes	Yes	Yes
Observations	2,713	2,632	2,713	2,632
R-squared	0.259	0.510	0.401	0.544

Table 8: Regression of Key Employee Turnover on Political Ideology Conflict

This table analyzes the impact of employees' political ideology conflict on key employee turnover. *Leave* is a dummy variable which equals to 1 if the employee leaves the company in Year *t* and 0 otherwise. *KeyCEODiff* is the political ideology conflict between the key employee and the CEO. *KeyEmpDiff* is the political ideology conflict between the key employee and other non-CEO employees in the firm. Definitions of other variables are provided in Appendix A. All independent variables are lagged by 1 year. Column 1 and 3 include firm and year fixed effects. Column 2 and 4 include employee-firm and year fixed effects. Robust standard errors, clustered by firm and year, are reported in parentheses. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% level, respectively.

Dep. Var.	*Leave*			
	(1)	(2)	(3)	(4)
KeyCEODiff	0.049**	0.062**		
	(0.021)	(0.030)		
KeyEmpDiff			0.032**	0.045*
			(0.014)	(0.023)
MB	0.002	-0.000	0.001	-0.001
	(0.008)	(0.008)	(0.006)	(0.006)
Lev	-0.131*	-0.105	-0.108*	-0.071
	(0.067)	(0.064)	(0.054)	(0.052)
Size	-0.006	-0.008	-0.006	-0.010
	(0.016)	(0.019)	(0.010)	(0.011)
CAPEX	-0.124**	-0.078	-0.097*	-0.059
	(0.057)	(0.055)	(0.050)	(0.047)
PPE	-0.036	-0.024	-0.018	-0.027
	(0.044)	(0.057)	(0.025)	(0.041)
RD	0.182	0.156	0.136	0.261
	(0.236)	(0.251)	(0.205)	(0.196)
FirmAge	0.053**	0.030	0.058***	0.032
	(0.019)	(0.036)	(0.016)	(0.021)
Board	-0.016**	0.094**	-0.016**	0.062**
	(0.007)	(0.039)	(0.007)	(0.028)
KeyExec	0.142***	0.221***	0.143***	0.221***
	(0.021)	(0.025)	(0.022)	(0.027)
CEOchair	-0.019	-0.020		
	(0.017)	(0.021)		
CEOpay	-0.011	-0.011		
	(0.007)	(0.007)		
CEOtenure	0.020***	0.017***		
	(0.005)	(0.006)		
Firm FE	Yes	No	Yes	No
Employee-Firm FE	No	Yes	No	Yes
Year FE	Yes	Yes	Yes	Yes
Observations	10,272	9,728	12,649	12,033
R-squared	0.174	0.212	0.189	0.211

Table 9: 2SLS Estimation based on the Acquisitions of Local Television Stations by Sinclair Broadcast Group

This table presents the 2SLS analysis based on acquisitions of local television stations by Sinclair Broadcast Group. Panel A reports the OLS regression results of political ideology and conflict measures on *Sinclair*. Panel B reports the OLS and 2SLS regressions of *ROA* on employees' political ideology conflict measures. Definitions of the variables are provided in Appendix A. All control variables are lagged by 1 year. All columns include firm, industry, and year fixed effects. Robust standard errors, clustered by firm and year, are reported in parentheses. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% level, respectively.

Panel A: Regressions of Political Ideology and Conflict Measures on *Sinclair*

Dep. Var.	*DEMemp*	*DEMCEO*	*CEOempDiff*	*EmpConflict*
	(1)	(2)	(3)	(4)
Sinclair	-0.028**	0.006	-0.048***	-0.250**
	(0.013)	(0.009)	(0.014)	(0.117)
MB	-0.003	0.004	-0.010**	0.016
	(0.007)	(0.003)	(0.005)	(0.025)
Lev	0.004	0.014	-0.065*	-0.265
	(0.044)	(0.041)	(0.034)	(0.158)
Size	0.004	-0.017	-0.048***	0.029
	(0.011)	(0.015)	(0.010)	(0.051)
CAPEX	0.252*	0.140	-0.076	-0.369
	(0.137)	(0.098)	(0.108)	(0.425)
PPE	-0.079	-0.021	0.078	1.143***
	(0.183)	(0.112)	(0.176)	(0.341)
RD	-0.049*	0.051	-0.006	0.041
	(0.028)	(0.041)	(0.029)	(0.102)
FirmAge	-0.131**	0.050	0.027	-0.309
	(0.053)	(0.031)	(0.042)	(0.196)
CEOchair	0.015	-0.006	0.032**	
	(0.016)	(0.021)	(0.014)	
CEOpay	0.003	-0.002	0.007	
	(0.006)	(0.008)	(0.007)	
CEOtenure	-0.006	-0.010	-0.014**	
	(0.009)	(0.012)	(0.006)	
DEMstate	0.480***	0.046	0.020	-0.235
	(0.118)	(0.118)	(0.128)	(1.072)
ChgGDP	0.073	-0.346	0.232	-2.991
	(0.294)	(0.206)	(0.332)	(3.061)
PersonalIncome	0.255**	0.014	0.106	-0.455
	(0.091)	(0.087)	(0.095)	(0.808)
Unemployment	1.525**	-1.349**	1.200	1.902
	(0.677)	(0.624)	(0.873)	(3.828)
Firm FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Observations	5,174	5,174	5,174	3,271
Adj. R-squared	0.583	0.825	0.525	0.503
F statistic			11.337	5.153

Panel B: OLS and 2SLS Regressions of *ROA* on Employees' Political Ideology Conflict Measures

Dep. Var.	*ROA*			
	OLS	2SLS	OLS	2SLS
	(1)	(2)	(3)	(4)
CEOempDiff	-0.013**	-0.019**		
	(0.006)	(0.009)		
EmpConflict			-0.004**	-0.003
			(0.002)	(0.004)
MB	0.022***	0.024***	0.023***	0.023***
	(0.004)	(0.005)	(0.005)	(0.006)
Lev	-0.005	0.003	-0.030	-0.020
	(0.019)	(0.036)	(0.033)	(0.033)
Size	-0.025**	-0.017	-0.034***	-0.035***
	(0.010)	(0.018)	(0.010)	(0.010)
CAPEX	-0.074	-0.064	-0.073	-0.061
	(0.076)	(0.086)	(0.136)	(0.134)
PPE	-0.482***	-0.491***	-0.255***	-0.290***
	(0.147)	(0.167)	(0.079)	(0.088)
RD	0.002	0.003	0.002	0.001
	(0.015)	(0.021)	(0.016)	(0.015)
FirmAge	0.073*	0.069*	0.095**	0.104**
	(0.038)	(0.037)	(0.040)	(0.047)
CEOchair	0.018***	0.013		
	(0.006)	(0.012)		
CEOpay	0.015***	0.014**		
	(0.004)	(0.005)		
CEOtenure	0.002	0.004		
	(0.003)	(0.005)		
DEMstate	-0.044	-0.041	0.037	0.051
	(0.045)	(0.090)	(0.064)	(0.088)
ChgGDP	0.268*	0.243	0.286	0.375
	(0.154)	(0.264)	(0.166)	(0.260)
PersonalIncome	-0.045	-0.063	-0.126*	-0.118
	(0.045)	(0.068)	(0.069)	(0.073)
Unemployment	0.606**	0.435	-0.148	-0.258
	(0.260)	(0.722)	(0.392)	(0.528)
Firm FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Observations	5,174	5,174	3,271	3,271
Adj. R-squared	0.800	0.755	0.756	0.727