

Where to Hire?

Political Alignment and Internal Labor Allocation

Abstract

This paper studies how political alignment between firm CEOs and state governors influences internal labor allocation. We find that firms expand employment more in politically aligned states, especially when CEOs are more polarized, during periods of heightened polarization, and under unified state governments. This effect remains robust when we exploit close gubernatorial elections as a source of plausibly exogenous variation in political alignment. Further analysis suggests that these decisions are driven by CEO optimism about politically aligned states, rather than political connections or personal preferences. However, such expansions predict lower subsequent stock returns.

1 Introduction

Political polarization in the United States has intensified significantly in recent decades, promoting growing interest in its economic implications. An emerging literature shows that partisanship shapes executive beliefs and corporate decision-making. However, little is known about how partisanship influences firms’ internal resource allocation, even though many firms operate across multiple states and must navigate politically diverse environments. We fill this gap by studying whether political alignment between CEOs and state governors influences firms’ internal resource allocation, with a focus on labor.¹

Conceptually, it is unclear whether, and to what extent, political alignment between CEOs and state governors influences a firm’s resource allocation across states. On the one hand, CEOs are expected to make these decisions based on business considerations, largely independent of their personal political ideology. On the other hand, political alignment may lead firms to allocate more resources to aligned states. This may occur because political alignment affects CEOs’ perceptions of local policies and economic prospects, or because CEOs have a personal or ideological preference for politically aligned states.

We construct a granular firm-state-year panel dataset on employment from 1997 to 2023, using establishment-level data from Data Axle (formerly Infogroup). To measure political alignment between a firm’s CEO and governors of the states where the firm operates, we infer CEO political leanings from their past political contribution records and match these with governors’ party affiliations.

The granularity of our dataset allows us to employ high-dimensional fixed effects to credibly identify the impact of political alignment on firms’ internal labor allocation. Specifically, we compare employment growth between politically aligned and nonaligned states within the

¹Ideally, we would like to study the role of political alignment in firms’ internal allocation of both capital and labor. However, due to the lack of data on firms’ capital deployment across states, we focus on labor allocation, for which detailed employment data are available. Labor investment and capital investment are likely highly correlated, since state-level capital commitments are typically accompanied by expansions in headcount. Additionally, while CEOs may not directly make individual hiring decisions, they play a central role in capital expenditure and overall headcount planning.

same firm and year by including firm-by-year fixed effects. This controls for time-varying firm-level factors such as overall employment change. We also compare employment growth across firms with differing CEO ideologies within the same state and the same year using state-by-year fixed effects, which accounts for local economic and political conditions, including uncertainty around gubernatorial elections. We further include firm-by-state fixed effects to control for time-invariant characteristics of firm-state pairs, such as geographic proximity or historical investment patterns.

Our main analysis shows that political alignment significantly influences firms' internal labor allocation. Specifically, when a CEO and a governor share the same political ideology, the firm's employment growth in that state is 0.65 percentage points higher than in states without such alignment. Given the average employment growth rate of 1.7%, this effect represents a substantial 38.2% increase, underscoring the economic significance of political alignment with governors in shaping firms' labor decisions.

The effect is stronger among firms led by politically polarized CEOs, defined as those who contribute exclusively to one party, and those who are more politically active, as indicated by the total amount of political contributions. Due to rising political polarization, the effect has also become more pronounced after 2010, consistent with [Duchin et al. \(2023\)](#). Moreover, the effect is stronger under unified state governments, where the governor and legislature are controlled by the same party. In such environments, politically aligned CEOs are likely to be more optimistic about the state's policy outlook and economic prospects. Importantly, our finding remains robust even when political alignment is defined not just at the CEO level, but across the entire executive team.

Despite the inclusion of stringent fixed effects, one might still be concerned that CEOs contribute strategically to the party of a governor or a candidate likely to win in anticipation of future business expansion in that state. To address this concern, we refine our analysis by focusing on close gubernatorial elections, which provide a source of plausibly exogenous variation in the political alignment between CEOs and governors. Specifically, we define

close elections as those with a margin of victory of less than 5 percentage points between the top two candidates, and restrict the sample to the two years before and after these elections. Under this stricter specification, the estimated effect of political alignment on employment growth continues to hold and increases to 1.33 percentage points.

We also examine whether our results are driven by state-level political connections rather than broader political alignment. CEOs may be more likely to have connections in a state if they share the governor’s party affiliation. Ideally, we would measure contributions made directly to governors, but such data are not systematically available. As a proxy, we classify a CEO as politically connected to a state if they contributed to U.S. Senate or House candidates from that state during the prior ten years. The effect of political alignment remains robust after controlling for CEO-state political connections.

Additionally, one remaining concern is that the observed effects may be driven by alignment between the firm’s industry and the governor’s policy. Namely, if Republican (Democratic) CEOs concentrate in industries that benefit from Republican (Democratic) governors’ policies, the CEO-governor alignment would simply reflect industry-governor alignment. As a result, the effect we document could simply be due to firms benefiting from state policies regardless of the political ideology of their CEOs. To address this concern, we compare firms from the same industry operating in the same state in a given year by including industry-state-year fixed effects in the main regression. Even after controlling for this effect, the coefficient on CEO-governor political alignment remains robust.

Next, we explore two potential channels that might explain our main finding. First, CEOs may be more optimistic about state policies or local economic prospects when they are politically aligned with state governors. Second, CEOs may favor politically aligned governors based on personal ideological preferences. To distinguish between these two channels, we examine how the effect of political alignment varies across industries. The idea is that if the effect is driven by CEO optimism about state policies or economic conditions, it should be more pronounced in industries that are particularly sensitive to partisan changes. In

contrast, if the effect stems from CEOs’ personal preferences, we would expect it to appear more uniformly across industries.

To measure an industry’s sensitivity to partisan changes, we use stock return reactions to the 2016 and 2020 U.S. presidential elections. The underlying intuition is that industries sensitive to economic policies of different parties would show opposite stock reactions to these two elections, while industries less affected by policy changes would show little change. We rank industries based on stock returns around both elections, and define the partisan sensitivity index as the absolute change in the two rankings. We then divide industries into high- and low-sensitivity groups, and run our baseline models separately on these two groups. The result shows that the effect of political alignment on labor allocation is entirely concentrated on partisan-sensitive industries, suggesting that CEO optimism about politically aligned states rather than personal preferences play an important role in explaining the higher employment growth in aligned states.

Next, we explore whether the observed optimism stems from: 1) expectations of stronger local demand due to improved economic conditions, or 2) expectations that the firm will specifically benefit from state government policies. If the effect is primarily driven by local demand, it should be concentrated in non-tradable industries, which rely more heavily on local consumers. Conversely, if the latter is a major factor, we would expect stronger effects in tradable industries. To test this, we replicate our baseline analysis separately for tradable and non-tradable sectors. We find significant effects in both groups, though the magnitude is twice as large for the tradable sector. This suggests that CEOs’ optimism regarding favorable policies from politically aligned states may be a primary driver of our results.

After exploring the underlying channels of the political alignment effect, we examine whether this behavior enhances or decreases firm value. Although our mechanism analysis indicates that our findings are driven by CEOs’ optimism due to political alignment, its value implication remains unclear. The answer depends on whether CEOs’ optimism is based on rational expectations or reflects biased judgment. To address this, we measure firms’ partisan

labor allocation by identifying firms that grow their workforce more in aligned states than in misaligned states. We find that firms exhibiting stronger partisan labor allocation earn 1.3 percentage points lower stock returns in the following year. This suggests that these labor allocation decisions may reflect CEOs’ biased expectations about future policies or economic conditions in aligned states, which may not serve shareholders’ best interests.

Finally, we examine whether weak internal oversight exacerbates value-destroying, politically driven labor allocation decisions. Since political alignment driven labor allocation reduces firm value, we should expect the effect to be more pronounced in firms with weaker corporate governance, where CEOs face fewer constraints and have more managerial discretion. Consistent with this idea, we find that the political alignment effect is significantly stronger in firms with low corporate governance scores, using data from Morningstar Sustainability. Importantly, this effect appears specific to the governance dimension, as similar patterns do not arise when using environmental and social ratings.

This paper contributes to the growing literature on how political alignment influences corporate decision making. Prior studies document that alignment with the government affects firm behavior in areas such as investment (Rice, 2023) and trade relationships (Kempf et al., 2023; Ayyagari et al., 2025). Related research shows that political alignment among executives and employees plays a significant role in executive matching (Fos et al., 2022), mergers and acquisitions (Duchin et al., 2023), hiring decisions (Colonnelli et al., 2025), and firm performance (Lee et al., 2014). Political alignment has also been shown to influence a wide range of economic agents, including credit rating analysts (Kempf and Tsoutsoura, 2021), entrepreneurs (Engelberg et al., 2024), households (Meeuwis et al., 2022; Mian et al., 2023; McCartney et al., 2024), institutional investors (Kempf et al., 2023; Cassidy and Vorsatz, 2024), inventors (Engelberg et al., 2025), and loan officers (Dagostino et al., 2023).

We add to this literature by studying how political alignment between CEOs and state governors influences firms’ internal labor allocation. Unlike studies that rely on presidential elections, We exploit the staggered timing and geographic variations of gubernatorial elec-

tions across states to achieve finer identification of alignment effects. We also distinguish whether the effect reflects economic optimism or political preference, and whether such optimism is policy-specific or broad-based. As noted by [Kempf and Tsoutsoura \(2024\)](#), separating these channels is empirically difficult but crucial for understanding the mechanisms behind politically driven corporate behavior.

We also contribute to the literature on firms’ internal capital and labor allocation. [Giroud and Mueller \(2015\)](#) show that firms reallocate capital and labor from less productive plants to more productive plants. [Tate and Yang \(2015\)](#) document that diversified firms redeploy labor to more productive industries. [Giroud and Rauh \(2019\)](#) find that an increase in corporate business tax leads to a decrease in firms’ employment and capital in the state. [Zeng \(2020\)](#) finds that firms hire more workers in an area where other areas that firms operate experience strong competition for talent from VC backed startups. We show that political factors, such as political alignment between CEOs and governors, are important in understanding firms’ internal labor allocation.

In addition, our paper is related to the literature studying the impact of state gubernatorial elections on firm policies. Existing papers have analyzed the impact of gubernatorial elections on firm investment ([Jens, 2017](#)), initial public offering ([Çolak et al., 2017](#)), merger and acquisition ([Chen et al., 2023](#)), research and development ([Atanasov et al., 2024](#)). These papers focus on the political uncertainty channel through which gubernatorial elections affects firm policies. In contrast, we study the impact of political alignment between CEOs and governors on firm policies.

The rest of the paper is organized as follows. We detail the data and measure in Section 2. We describe our main result on the impact of political alignment on internal labor allocation in Section 3. We discuss the mechanism in Section 4, study the value implications in Section 5, and present additional results in Section 6. We conclude in Section 7.

2 Data and Measure

In this section, we outline the data and key measures used in our analysis. Section 2.1 describes data sources used to construct the main dataset. Section 2.2 details the measurement of firms’ political leanings, derived from the political contributions of their CEOs. Section 2.3 presents summary statistics.

2.1 Data

Our analysis begins with establishment-level employment data from Data Axle (formerly Infogroup), a comprehensive dataset that provides detailed information on U.S. businesses from 1997 to 2023. It includes key fields such as business name, location, industry, and employment count. The information is compiled from various sources, such as local yellow pages, phone verification, news publications, and annual reports. Various studies have used employment data from Data Axle ([Michaels et al., 2019](#); [Ghent, 2021](#); [Pan et al., 2022](#)).

To focus on publicly traded companies, we filter the dataset using company tickers. For each company, we aggregate the data from the establishment level to the state level, allowing us to conduct empirical analyses at the firm-state-year level. We then integrate this employment data with firm characteristics from Compustat and stock returns from CRSP. We focus on common stocks traded on major stock exchanges, specifically NYSE, AMEX, and NASDAQ, and firms headquartered in the United States.

Next, to examine the influence of CEO-governor political alignment on firms’ internal labor allocation, we manually compiled a dataset of CEO political contributions. Specifically, we match executive names from ExecuComp with individual political contribution records from the Federal Election Commission (FEC). Section 2.2 provides a detailed explanation of the matching process and how we infer the political leaning of CEOs of public companies from their contribution records.

To determine the political affiliation of U.S. state governors, we developed Python code

to collect public information from the National Governors Association (NGA) website. We compiled a dataset of state governors, which includes details on governors’ tenures, political parties, and other relevant attributes.² This allows us to analyze the political alignment between corporate CEOs and state governors. Figure IA1 shows the political affiliation of U.S. state governors at four-year intervals, indicating each state’s partisan leaning and whether it retained or changed its governing party.³ We supplement the data with gubernatorial election information gathered from Wikipedia, which provided insights into the election process beyond just the outcomes, including details on all candidates and voting specifics.⁴ By calculating the margin of victory between winning and losing parties, we identified close elections, allowing us to capture plausibly exogenous variation in CEO-governor political alignment. We obtain data on state legislature party control from the National Conference of State Legislatures (NCSL) website.

Finally, we supplement the dataset with state-level demographic and economic variables, including GDP and population data from the U.S. Bureau of Economic Analysis (BEA) and unemployment rates from the U.S. Bureau of Labor Statistics (BLS). These state characteristics are used as controls in our empirical analyses. The final sample contains 1,954 companies covering the period from 1997 to 2023.

2.2 Measuring firm political leaning

To infer the political leaning of U.S. public companies, we analyze political contributions made by firm CEOs, following the literature (Hong and Kostovetsky, 2012; Wang, 2024). We begin with individual-level contribution data from the Federal Election Commission (FEC), which provides details on the donor’s name, employer, occupation, contribution date, amount, and the recipient committee from 1980 to 2023. We then match this contribution

²For example, see the list of current governors on the NGA website: <https://www.nga.org/governors/>.

³The vast majority of U.S. states (48 out of 50) hold gubernatorial elections every four years, with the exceptions of New Hampshire and Vermont, which have two-year terms. Therefore, showing political leanings at four-year intervals captures the party affiliation of each governor in nearly all states.

⁴For example, see the “Race summary” section of 2022 U.S. Gubernatorial Elections: https://en.wikipedia.org/wiki/2022_United_States_gubernatorial_elections.

data with CEO information from the ExecuComp database. ExecuComp provides data on the top-earnings executives covered in the S&P 1500 index, including their full names and roles within the firm. We first match based on CEOs’ first and last names, and then use other information to rule out incorrect matches. Specifically, we drop observations with inconsistent middle names (when available in both datasets) and filter out mismatched employer names through textual analysis. Given that employer information in the FEC dataset is self-reported, we use a fuzzy matching process: we preprocess employer names by removing punctuation, extra blank spaces, and common company suffixes, then compare the similarity of firm names in both datasets, discarding observations with a similarity score below 60%. Using the process described above, we identified 156,255 contribution records made by 4,834 CEOs across 2,938 companies. This represents approximately 52% of CEOs and 72% of companies in the ExecuComp database, consistent with the literature (Rice, 2023).

Next, to infer the political leaning of a CEO, we classify the party affiliation of each contribution based on the political action committee (PAC) receiving the money. To ensure accurate classification, we only use committees that are affiliated with a party.⁵ We then aggregate the political contributions made over the past ten years to infer the CEO’s political leaning at any given time.⁶ By focusing only on contributions in the 10 years preceding the measurement, we avoid forward-looking bias and allow the political leaning of a CEO to vary over time. Consequently, a CEO is classified as a Democrat if more contributions go to the Democratic party, a Republican if more contributions are to the Republican party, and non-partisan if contributions are equally distributed between two parties or to PACs without explicit party affiliations. Our results are robust when we classify CEOs’ political ideology based on their lifetime contributions.

To validate the quality of our political leaning measure, we examine the top Republican and Democratic donors in our sample and assess whether these results align with anecdotal

⁵Most presidential, senate, house committees and party committees declare party affiliations. Other types of committees (e.g., super PACs) rarely declare affiliations.

⁶For example, a CEO’s political leaning in 2018 is inferred from contributions made from 2009 to 2018.

evidence. [Table IA1](#) lists the top 10 CEOs by total contributions to each party. For instance, Sheldon Adelson, former CEO of Las Vegas Sand Corp, stands out as the most significant Republican donor and is often referred to as a “kingmaker” due to the scale and frequency of his contributions.⁷ On the other hand, Jeffrey Katzenberg, former CEO of Dreamworks Animation Skg Inc, is the leading Democratic donor and is recognized as “one of Hollywood’s premier political kingmakers and one of the Democratic Party’s top national fund-raisers”.⁸ These examples illustrate the reliability of our inference method.

Overall, we document that firms tend to contribute more to the Republican Party than to the Democratic Party, and they are also more likely to have Republican-leaning CEOs. As shown in [Figure 1](#), over the past 40 years, 60% to 70% of CEO political contributions have been directed toward Republicans. Similarly, approximately 60% of partisan CEOs lean toward the Republican party. These trends are consistent with the findings of [Fos et al. \(2022\)](#), providing additional support for the validity of our CEO political leaning measure.

[Insert [Figure 1](#) here]

Besides, one might be concerned that a CEO is not the sole decision-maker within a company. To address this, we also collect political contributions made by corporate executives covered in the ExecuComp database. Using similar matching procedures as described previously, we collect a total of 465,244 contribution records (including CEO contributions) made by 18,702 executives across 3,534 companies, spanning 87% of the companies in the ExecuComp database. We then aggregate the political affiliations of executives at the firm level. Specifically, an executive is classified as a Republican (or Democrat) if they contribute more to the Republican (or Democratic) party than to the opposing party. A firm’s executive team (including CEO) is considered Republican-leaning if it has a greater number of Republican executives than Democrats, and vice versa. Our results remain robust when

⁷Schneider, Elena; Isenstadt, Alex. January 12, 2021. [Sheldon Adelson’s super PAC spending spree shaped GOP politics](#). *Politico*.

⁸Daunt, Tina; Masters, Kim. October 30, 2013. [Jeffrey Katzenberg’s Secret Call to Hillary Clinton: Hollywood’s 2016 Support Assure](#). *The Hollywood Reporter*.

using the political leanings of firm executives to measure firm partisanship.

2.3 Summary statistics

[Table 1](#) provides summary statistics for the key variables used in the empirical analysis, with the unit of observation at the firm-state-year level. [Table A1](#) presents detailed definitions for all variables. On average, firms employ 841 workers in a state they operate, with an employment growth rate of 1.7%. Political alignment between CEOs and governors is observed in 22% of observations. An average firm holds total assets valued at \$46.7 billion, maintains a leverage ratio of 27%, and has a Tobin’s Q of 1.92. Profitability averages 36%, while the cash holding ratio stands at 11%. For state characteristics, the mean unemployment rate is 5.67%, and the average GDP and population growth rates are 4.1% and 0.75%, respectively.

[Insert [Table 1](#) here]

3 Political alignment and labor allocation

In this section, we study the effect of political alignment between CEOs and state governors on firms’ internal labor allocation decisions. We also examine how this effect varies with the CEO’s political polarization level, the broader polarization environment, partisan alignment between governors and state legislatures, as well as the dynamic effect within the election cycle. To address endogeneity concerns, we further focus on close gubernatorial elections, which help mitigate the possibility that the CEO-governor political alignment is endogenously formed due to the CEO’s anticipation of expanding in a state. Finally, we perform robustness checks to ensure that the observed CEO–governor alignment is not driven by CEOs’ political connections to the state or by alignment between the firm’s industry and the governor’s policy agenda.

3.1 Baseline result

To estimate the impact of CEO-governor political alignment on firm internal labor allocation, we use the following regression specification:

$$\Delta \log Emp_{i,s,t} = \alpha + \beta \times Aligned_{i,s,t} + Controls_{i,s,t-1} + \gamma_{i,s} + \eta_{i,t} + \theta_{s,t} + \epsilon_{i,s,t} \quad (1)$$

where $\Delta \log Emp_{i,s,t}$ measures the employment growth of firm i in state s from year $t - 1$ to year t . $Aligned_{i,s,t}$ indicates whether firm i CEO is politically aligned with state s governor in year t . The change in CEO-governor political alignment could originate from CEO turnover, state governor turnover, or a change in the political leaning of a CEO. We control for firm characteristics in year $t-1$, including total assets, leverage, Tobin's Q, cash holdings, and profitability, and state characteristics in year $t-1$, including unemployment rate, GDP growth, and population growth. $\gamma_{i,s}$, $\eta_{i,t}$, and $\theta_{s,t}$ represent firm $\times$ state, firm $\times$ year, and state $\times$ year fixed effects. We cluster standard errors by firm and by year.

[Insert [Table 2](#) here]

The regression results are presented in [Table 2](#). The coefficient on $Aligned_{i,s,t}$ is positive and significant, suggesting that firms are more likely to increase employment in a state when their CEO is politically aligned with the state's governor. In column (1), we include firm $\times$ state FEs to control for potential time-invariant differences in labor allocation across firm-state pairs. For example, we can rule out that a firm's political alignment with a state and its higher labor allocation in that state are merely driven by geographic proximity of the firm's headquarter. We also include year fixed effects to control for the aggregate time trend. The coefficient point estimate of 0.0065 indicates that the employment growth rate is 0.65 percentage points higher when the CEO and state governor are politically aligned. For an average firm with a 1.7% employment growth rate in our sample, this effect translates into a substantial 38.2% increase, highlighting the economic importance of political alignment with state governors.

In [Table 2](#) column (2), we also include firm $\times$ year FEs to control for any time-varying firm characteristics, both observed and unobserved. This specification helps address concerns that omitted firm-specific factors—such as changes in corporate strategy, management priorities, or business conditions—might be correlated with both CEO-governor political alignment and firm labor allocation across states. The main result continues to hold, suggesting that the effect of political alignment on labor allocation is not driven by unobserved firm characteristics.

In [Table 2](#) column (3), we further include state $\times$ year FEs to control for any time-varying characteristics at the state level. For instance, the literature has shown that political uncertainty associated with gubernatorial elections has an impact on firm decisions ([Jens, 2017](#); [Atanassov et al., 2024](#)). By including state $\times$ year fixed effects, we account for the direct consequences of gubernatorial elections on the labor market, such as economic impacts or changes in political uncertainty associated with the election. Even with the most stringent specification, the main result remains robust at the 1% significance level, suggesting that political alignment with local governors plays an important role in explaining firms’ internal labor allocation.

3.2 Heterogeneity and dynamic effect

Next, we explore how the relationship between CEO-governor political alignment and employment growth varies with the CEO’s political polarization, their contribution intensity, the broader polarization environment, and whether the state government is unified or split. If the political alignment effect is indeed driven by partisanship, we would expect it to be stronger for highly polarized CEOs, those who make more political contributions, in more recent years with heightened political polarization, and in states with unified governments.

[Insert [Table 3](#) here]

[Table 3](#) examines these hypotheses. In columns (1) and (2), we classify CEOs as polarized if they contribute exclusively to one political party, and as less polarized if they contribute

to both parties. The results show that the coefficient is significant only for the polarized group (column 1) and insignificant for the less polarized group (column 2), indicating that firms led by more politically polarized CEOs experience a stronger political alignment effect.

We also examine whether the political alignment effect varies with the scale of political contributions. In [Table 3](#) columns (3) and (4), we divide the sample based on the median total contribution amount, and find that the coefficient is significant for CEOs who make above-median contributions (column 3), while insignificant for those who contribute below the median (column 4). These findings are consistent with our prior expectations, reinforcing the idea that political alignment affects firms’ internal labor allocation.

Next, we analyze whether the effect is stronger in recent years as political polarization intensifies. Following [Duchin et al. \(2023\)](#), we split our sample into pre-2010 and post-2010 subsamples. [Table 3](#) column (5) shows that the effect is insignificant in the pre-2010 period, while the main coefficient in column (6), for the post-2010 period, is significant at the 1% level and more than doubles the main coefficient in column (5). This result suggests that as political environment becomes more polarized, political factors become even more important for firms’ internal labor allocation decisions.

Further, we examine whether the effect varies depending on whether a state government is unified or split. We obtain data on state legislature party control from the National Conference of State Legislatures (NCSL) website. A state legislature comprises both chambers, the state senate and the state house. A unified government occurs when both the governor and the state legislature are controlled by the same party. A split government occurs when the governor and the state legislature are controlled by different parties, or when the legislature itself is divided (i.e., the two chambers are controlled by different parties). We expect the political alignment effect to be stronger under unified governments, since aligned governors are more capable of advancing their policy agendas without legislative gridlock. This likely strengthens CEOs’ optimism about the state. As shown in [Table 3](#) columns (7) and (8), the effect is concentrated in states with unified governments, while there is no significant effect

in states with split governments, consistent with our expectation.

To better understand the precise timing of the effect, we examine the dynamic impact of CEO-governor political alignment on firms' employment growth throughout the gubernatorial election cycle. Specifically, we estimate the following dynamic regression:

$$\Delta \log Emp_{i,s,t} = \alpha + \sum_{\tau=1}^4 \beta_{\tau} \times Aligned_{i,s,t} \times D_{s,\tau} + Controls_{i,s,t-1} + \gamma_{i,s} + \eta_{i,t} + \theta_{s,t} + \epsilon_{i,s,t} \quad (2)$$

where $D_{s,\tau}$ are dummy variables indicating whether year t falls within the 1st, 2nd, 3rd, or 4th year following a gubernatorial election. All other variables are defined the same as the main regression ([Equation 1](#)).

[Table IA2](#) presents the regression result. The effect is strongest in the second year following a gubernatorial election, indicating that it takes time for firms to adjust their labor allocation in response to political alignment with local governors.

3.3 Close elections

Despite our extensive fixed effects controlling for unobserved time-varying firm and state characteristics and time-invariant firm-state pairing effects, concerns about potential endogeneity may still arise. For example, CEOs could contribute to the party of a state governor or a candidate expected to win before planning to expand their operations in that state. In this case, CEO-governor political alignment may be endogenously formed and vary over time, introducing firm-state-year-level variation that is not fully absorbed by our fixed effects.

To address this issue, we focus on close gubernatorial elections as a source of exogenous variation in CEO-governor political alignment. Following [Babenko et al. \(2020\)](#), we define a close election as one where the margin of victory between the winning and losing candidates is less than 5%.⁹ We further restrict our analysis to the two years before and after these elections on each side. Given the small margin of victory, changes in CEO-governor political

⁹In [section 6](#), we show that our results are robust to using a stricter 2.5% threshold for close elections.

alignment stemming from close elections should be plausibly exogenous.

[Insert Table 4 here]

Table 4 presents the relationship between CEO-governor political alignment and firms' state-level employment growth around close gubernatorial elections. Although the coefficient on $Aligned_{i,s,t}$ is insignificant in column (1), it becomes significant in column (2) after including additional fixed effects, which control for unobserved firm characteristics. The coefficient remains significant at the 1% level in column (3) under our strongest specification. This finding suggests that our results are not driven by endogenous matching between the political leanings of CEOs and governors, indicating that partisanship indeed influences firms' internal labor allocation decisions.

3.4 CEO-state political connections

In our main analysis, we define a CEO's political ideology based on contributions across all states. However, some contributions may be directed toward candidates in specific states that align politically with the CEO, raising the concern that our results could reflect state-specific political connections rather than broader ideological alignment with state governors. Ideally, we would measure political connections by tracking contributions made directly to governors, but there is no centralized source for this data, as the FEC only provides data on candidates running for federal office.

To proxy for state-level political connections, we measure contributions to candidates running for federal office representing a given state (e.g., U.S. Senate or House). The intuition is that these federal officeholders have political influence within their states, so supporting them may help firms build connections at the state level. Based on this measure, we construct a new variable, *Connected*, which equals one if a firm's CEO contributed to at least one Senate or House candidate from the state during the ten-year period prior to year t .

In our sample, the correlation between *Aligned* and *Connected* is 0.17, indicating that political alignment and political connections are related but capture distinct aspects of a

CEO’s political behavior. We then re-estimate our main specification in [Equation 1](#), adding *Connected* as a control, and report the results in [Table 5](#). The coefficient on *Aligned* remains similar to the main regression and statistically significant, suggesting that the political alignment effect we document is robust to controlling for state-level political connections.

[Insert [Table 5](#) here]

3.5 Industry-governor alignment

One remaining concern is that the observed CEO-governor political alignment reflects the match between the firm’s industry and the governor’s policy. Namely, if Republican (Democratic) CEOs are more likely to work in industries that benefit more from policies of Republican (Democratic) governors, the CEO-governor political alignment would be highly correlated with industry-governor alignment. As a result, the effect we document may be due to firms benefiting from state policies regardless of the political ideology of firm CEOs.

To address this concern, we control for industry-governor political alignment by including industry $\times$ state $\times$ year fixed effects in the main regression. This approach allows us to isolate the political alignment effect between CEOs and state governors within each industry for each state in each year. We consider industries based on the Fama-French 49 classification or the 2- or 3-digit NAICS industry codes. The regression results, reported in [Table 6](#), show that the coefficient on *Aligned* increases to 0.75-0.77 percentage points and remains highly significant at the 1% level. This finding indicates that political alignment between CEOs and governors continues to influence firms’ labor allocation decisions, even after controlling for the broader industry-governor alignment effect.

[Insert [Table 6](#) here]

Taken together, the results in this section show that firms are more likely to increase employment in a state when their CEO’s political leaning aligns with that of the state’s governor. This relationship remains robust even under stringent empirical specifications

that account for time-varying firm fundamentals, state characteristics, and firm-state pairing effects. The effect is stronger among more polarized firms, CEOs who make more political contributions, in more recent years as political polarization intensifies, and under unified state governments. To address potential endogeneity concerns, we focus on close gubernatorial elections, which provide plausibly exogenous variation in CEO-governor political alignment, and find that the results continue to hold. Additionally, the observed effect is not driven by political connections or the alignment between the firm’s industry and the governor’s policy. These findings suggest that political alignment with local governors plays an important role in understanding firms’ labor allocation decisions.

4 Mechanism

So far, our empirical analyses provide robust evidence that firms have higher employment growth in states where their CEOs are politically aligned with the governor. We now explore the underlying economic mechanisms driving this pattern.

We distinguish between two potential mechanisms. The first mechanism suggests that CEOs may be more optimistic about state-level policies or local economic conditions when they are politically aligned with the governor. For example, aligned CEOs may expand operations in a state in anticipation of more favorable policies—such as lower taxes, lighter regulation, or greater access to subsidies—or because political alignment boosts their confidence in the state’s economic outlook and expected future demands. The second mechanism posits that CEOs may have personal preferences toward politically aligned governors, which could influence their decision-making independent of economic fundamentals. Such preferences may arise from shared values or greater trust in aligned individuals, leading CEOs to favor aligned states even when doing so does not offer clear economic advantages.

To disentangle these channels, we examine the variation in the political alignment effect across industries. If the first mechanism holds, we would expect the impact of political align-

ment to be more pronounced in partisan-sensitive industries. In contrast, under the second mechanism, if the effect is driven purely by political preferences, it should be similar across industries, as decisions are driven by ideological alignment rather than policy expectations.

Identifying partisan-sensitive industries is empirically challenging due to data limitation. To overcome this, we construct a measure of an industry’s partisan sensitivity based on its stock market responses to the 2016 and 2020 presidential elections. Specifically, we examine weekly stock returns around each election to determine whether an industry benefits from a particular party’s governance. We then rank industries based on their returns, and compare the change in rankings between the two elections. Since the presidency switched parties in 2016 and 2020, industries sensitive to partisan policies should show opposite responses to the two elections, leading to large ranking changes. For example, as shown in [Figure 2](#), among Fama-French 49 industries, the coal industry, which benefits from Republican governance, fell from 12th in 2016 to 46th in 2020, a drop of 34 positions. Conversely, the software industry, which benefits from Democratic governance, rose from 39th to 7th, a gain of 32 positions. These ranking changes between the two elections capture an industry’s sensitivity to the party in power, with larger ranking shifts indicating greater sensitivity.

[Insert [Figure 2](#) here]

[Figure IA2](#) shows the partisan sensitivity of each Fama-French 49 industry, based on changes in their stock market ranking responses to the 2016 and 2020 presidential elections. We classify industries as partisan-sensitive if their ranking change between the two elections exceeds the median of 10 positions, and as partisan-insensitive if it does not exceed 10 positions.¹⁰ We then rerun the main regression separately for these two groups, and present the results in [Table 7](#). For partisan-sensitive industries, the coefficient on *Aligned* ranges from 0.0096 to 0.0113 and is significant at the 1% level in the strongest specification (column 3). In contrast, the coefficient for partisan-insensitive industries is much smaller and statistically

¹⁰[Table IA3](#) provides a complete list of partisan-sensitive industries and partisan-insensitive industries with their respective ranking changes between the 2016 and 2020 presidential elections.

insignificant. These results are inconsistent with the political preference story, but instead support the idea that firms’ beliefs about local policies and economic conditions play an important role in driving increased employment in politically aligned states.

[Insert [Table 7](#) here]

Next, we investigate where the optimism behind firms’ expansion in politically aligned states might come from. One potential source is local policies that directly benefit firms, such as tax incentives, subsidies, or favorable regulations, which can encourage expansion in those states. Another potential source is local economic conditions, such as higher expected consumer demand, which raise firms’ expectations about future profitability and create incentives to increase employment locally. To distinguish between the two explanations, we examine the political alignment effect on tradable and non-tradable industries separately. Non-tradable industries (e.g. restaurants) depend heavily on local demand, while tradable industries (e.g. manufacturing) can sell goods both inside and outside the state and are less tied to local demand. Thus, if the optimism is mainly driven by expectations of stronger local demand due to better economic conditions, we should see the effect concentrated in non-tradable industries. However, if the expansion is due to favorable local policies, we would expect stronger effects in tradable industries.

We classify industries as tradable or non-tradable based on Barkai and Karger (2020), and rerun the baseline regressions separately for the two groups. The results are reported in [Table 8](#). While the coefficient on *Aligned* is positive and statistically significant in both cases, its magnitude is twice as large for tradable industries as for non-tradable industries. This finding suggests that the political alignment effect is not driven solely by optimism about local economic conditions, and that policy-driven optimism plays a more substantial role in driving our observed effects.

[Insert [Table 8](#) here]

Taken together, this section indicates that firms’ higher employment growth in politi-

cally aligned states is not due to CEOs' personal political preferences. Instead, it appears to be driven by greater optimism among politically aligned CEOs, likely stemming from expectations of favorable local policies.

5 Value implication

So far, we have shown that firms increase employment in states where the CEO and the governor are politically aligned. In this section, we examine how this alignment-driven labor allocation affects firm value.

Conceptually, the value implication of the political alignment effect is unclear. On the one hand, if CEOs' labor allocation decisions are based on rational expectations about state-level policies or economic conditions, alignment-driven labor allocation should not negatively impact firm value. On the other hand, if these decisions are driven by CEOs' irrational expectations, it could have negative consequences for firm value. For example, CEOs may be overly optimistic about future policies or economic conditions in politically aligned states, leading to suboptimal resource allocation and reduced firm performance.

To study the value implication of alignment-driven labor allocation, we first identify whether a company increases employment more in politically aligned states than in misaligned states. We then examine whether firms exhibiting such partisan allocation have different subsequent stock returns. Specifically, we aggregate the data from the firm-state-year level to the firm-year level, and construct the following measure to capture the tendency of partisan allocation for firm i in year t :

$$Partisan\ Allocation_{i,t} = \mathbb{1}(\sum_{s=1}^n \Delta Emp_{s,i,t} \times Aligned_{s,i,t} - \sum_{s=1}^n \Delta Emp_{s,i,t} \times Misaligned_{s,i,t}), \quad (3)$$

where $\Delta Emp_{s,i,t}$ is the change in employment for firm i in state s from year $t - 1$ to t , and $Aligned_{s,i,t}$ ($Misaligned_{s,i,t}$) is set to 1 if the CEO of firm i is politically aligned (misaligned) with the governor of state s in year t . For a firm operating across n states in

year t , *Partisan Allocation* $_{i,t}$ takes the value of 1 if the firm increases employment more in politically aligned states than in misaligned states, and 0 otherwise. Thus, the measure captures the firm’s tendency toward partisan allocation.

Next, to estimate the impact of partisan labor allocation on subsequent stock returns, we run the following firm-level panel regression:

$$Return_{i,t+1} = \alpha + \beta Partisan\ Allocation_{i,t} + Controls_{i,t} + \gamma_i + \eta_t + \epsilon_{i,t}, \quad (4)$$

where *Return* $_{i,t+1}$ denotes the annual stock return of firm i in year $t + 1$. All independent variables are measured in year t , and γ_i and η_t represent firm and year fixed effects. Standard errors are clustered by firm and by year.

[Insert [Table 9](#) here]

[Table 9](#) reports the regression results. In column (1), we include all firm-level controls used in the main regression ([Equation 1](#)), namely firm size, leverage, Tobin’s Q, cash holding, and profitability. We also include firm and year fixed effects to control for unobserved, time-invariant firm characteristics and the aggregate time trend. The coefficient on *Partisan Allocation* is -0.0132 with a t-statistics of -3.03, indicating that firms expanding employment more in politically aligned states experience 1.32 percentage points lower stock return in the following year. To mitigate the concern that *Partisan Allocation* could simply reflect firms’ overall expansion, we further include firm-level employment growth and capital expenditure as additional controls in [Table 9](#) column (2). The coefficient remains similar at -0.0146 with a t-statistics of -2.91, again suggesting that politically-driven labor allocation decreases firm value.

Since labor allocation driven by CEO-governor political alignment is associated with lower firm value, the alignment effect should be stronger in firms with poor corporate governance. Firms with strong governance typically constrain managerial discretion and help align managerial actions with shareholder interests. In contrast, poor governance allows CEOs greater

leeway, potentially leading to value-destroying decisions. To test this hypothesis, we use corporate governance scores from Morningstar Sustainalytics. It is a data provider that assesses firms’ environmental, social, and governance performance based on key ESG activities and applies weighted core and sector-specific metrics to produce an overall score for each ESG dimension. Sustainalytics scores are commonly used by practitioners and widely adopted in academic research (Kim and Yoon, 2023; Hartzmark and Sussman, 2019).¹¹

Focusing on the corporate governance dimension, we examine whether the relationship between CEO-governor political alignment and state-level employment growth is stronger among firms with poor governance. Specifically, we construct an indicator, *Poor Governance*, which equals one if a firm’s corporate governance score is below the median and zero otherwise, and interact it with *Aligned*. Table 10 presents the regression results. The coefficient on *Aligned* is small and statistically insignificant, suggesting that political alignment has little effect on employment growth for firms with strong governance. However, the coefficient on *Aligned* $\times$ *Poor governance* is much larger in magnitude and statistically significant at the 5% level, indicating that poor corporate governance exacerbates politically driven labor allocation. This finding aligns with our hypothesis.

[Insert Table 10 here]

To determine whether governance, rather than broader ESG factors, drives the effect, we repeat the analysis using firms’ environmental and social (ES) ratings. Unlike governance, ES ratings reflect practices less directly tied to managerial oversight and internal control. If the political alignment effect stems specifically from weak governance, we should not observe a similar pattern with ES ratings. We calculate each firm’s ES score as the average of its Sustainalytics environmental and social scores, and define *Poor ES* as a dummy equal to one if the ES score is at or below median. We then repeat the previous analysis, and report

¹¹Morningstar Sustainalytics ESG score data are available from 2009 to 2019, as Sustainalytics adopted a new risk-based rating methodology after 2019. To maintain consistency with our main sample period, we use the 2019 corporate governance score for all subsequent years (2020-2023). In Table IA4, we show that our results remain robust when limiting the analysis to 2009-2019, the period for which annual governance scores are available.

the results in [Table IA5](#). The coefficient on $Aligned \times PoorES$ is insignificant, suggesting that the political alignment effect is not driven by broader ESG performance, but is specific to the governance dimension.

Taken together, results in this section suggest that labor allocation driven by political alignment between CEOs and state governors may not serve the best interests of shareholders. Firms exhibiting partisan allocation behavior experience lower subsequent stock returns, and the political alignment effect is stronger among firms with poor corporate governance. These findings are inconsistent with the view that politically aligned CEOs hold rational expectations about state policies or economic conditions. Instead, they suggest that politically aligned CEOs may be overly optimistic, leading to value-decreasing investment decisions.

6 Additional results

In this section, we present additional tests to further validate our findings. First, we introduce an alternative measure of a firm’s political leaning. While the main analysis uses the CEO’s partisanship as a proxy for the company’s political stance, one might be concerned that the CEO is not the sole decision-maker in the firm. To address this concern, we collect political contributions made by corporate executives covered in ExecuComp, and use the collective political leaning of the executive team as a proxy for the firm’s political leaning. Specifically, we infer each executive’s partisanship based on their contributions over the past ten years, using the same approach as for the CEO. We then aggregate these individual leanings at the firm level. A firm’s executive team is classified as Republican-leaning if it has more Republican executives than Democrats, and vice versa.

[Insert [Table 11](#) here]

We define $Executive\ Gov\ Aligned_{i,s,t}$ to indicate whether firm i ’s executive team is politically aligned with the governor of state s in year t , and rerun the main regression from [Equation 1](#). The results, presented in [Table 11](#), show that the coefficient on $Executive\ Gov\ Aligned_{i,s,t}$

is positive and statistically significant at the 5% level or better across all specifications. This suggests that our findings remain robust when using the political leaning of the entire executive team, rather than just the CEO, to measure alignment with state governors.

[Insert [Table 12](#) here]

Next, we consider several alternative specifications of the main result. In prior analyses, we include partisan, non-partisan, and non-donor CEOs in the sample. As noted by [Rice \(2023\)](#), the advantage of including non-partisan and non-donor CEOs is that, for firm-year observations where the CEO does not lean toward either political party, these cases help create a more continuous sample, leading to more precise coefficient estimates. However, one might be concerned that it complicates the direct comparison between politically aligned and misaligned CEOs. To address this concern, we restrict the sample to partisan CEOs, that is, those classified as either Republican or Democrat. As shown in [Table 12](#) column (1), our main finding remains consistent. Firms with CEOs politically aligned with state governors are more likely to expand in those states compared to politically misaligned firms, providing a clearer picture of the political alignment effect.

We also examine the political alignment effect using the full contribution history of firm CEOs. In the main analysis, we use each CEO’s 10-year contribution history to infer their political leaning at any given point in time. This allows firm partisanship to vary over time and, more importantly, avoids forward-looking bias in the measurement of a firm’s political leaning. By doing so, we reduce concerns about reverse causality, such as firms donating to the governor’s party only after expanding in the state. However, one might argue that CEOs’ political leanings are relatively stable over time, and that using a longer contribution history may improve measurement accuracy. Therefore, we construct a time-invariant measure of CEOs political leanings using the full contribution history of CEOs. The regression result, shown in [Table 12](#) column (2), confirms that our result is robust when using the complete contribution history to infer political leanings.

Moreover, we construct a continuous measure of CEO-governor political alignment to

capture varying degrees of political polarization. Following [Lee et al. \(2014\)](#), we measure each CEO’s political leaning as the difference between their contributions to Republican and Democratic committees divided by the total contributions made to both Republican and Democratic committees:

$$Party_{i,t} = \frac{R_{i,t} - D_{i,t}}{R_{i,t} + D_{i,t}}, \quad (5)$$

where the measure ranges from -1 to 1. A positive value indicates a Republican-leaning CEO, while a negative value indicates a Democratic-leaning CEO. Non-partisan individuals or non-donors are assigned a value of 0. A governor’s political affiliation is coded as 1 for Republicans and -1 for Democrats. We then define the continuous political alignment measure as the interaction of $Party_{i,t}$ and the governor’s political leaning. As presented in [Table 12](#) column (3), the main finding remains when using this continuous measure of political alignment.

In addition, one might be concerned that the results are driven solely by firms expanding or shrinking at their headquarters. To address this issue, we exclude each firm’s headquarters state from the regression analysis. As reported in [Table 12](#) column (4), the main result continues to hold, suggesting that the political alignment effect is not driven by corporate headquarters or firms that operate only in a single state.

Furthermore, we consider an alternative definition of close elections. In the main analysis, we use a 5% margin to define close elections, which is already a reasonably tight threshold compared to related studies. For instance, [Jens \(2017\)](#) defines a close election as one where the margin of victory falls within the lowest tercile, with a cutoff of 7.1%. Nonetheless, as a robustness check, we test our results using an even tighter definition of a close election—2.5%. With such a tight threshold, the election outcome should be even more difficult to predict ex-ante, hence providing a setting with more exogenous variations of CEO-governor political alignment. The results are shown in [Table 12](#) column (5). Although this restriction further reduces the number of observations in the regression, our main finding remains consistent.

Finally, we examine whether the political alignment effect is different for Democratic and

Republican alignments. To do so, we interact the key independent variable, *Aligned*, with indicator variables for Democrats and Republicans. Specifically, we create two interaction terms: $Aligned \times Dem$, which equals 1 if both the CEO and the governor are Democrats; and $Aligned \times Rep$, which equals 1 if both are Republicans. We replace *Aligned* in [Equation 1](#) with these two interaction terms, allowing us to estimate the effect of political alignment on employment growth separately for Democratic and Republican pairs. As shown in [Table IA6](#), the estimated effects are quantitatively similar across both groups, suggesting that the political alignment effect is not driven by any single party.

In summary, this section reinforces our findings through a series of additional tests. We show that our main result remains robust when political alignment is measured using the collective contributions of corporate executives rather than only the CEO. The findings also hold when we limit the sample to partisan CEOs, use a full contribution history, exclude headquarter states, and redefine close elections. Moreover, the effect is not driven by a single political party. Together, these tests consistently support the robustness of our results.

7 Conclusion

In this paper, we examine how political alignment between CEOs and state governors affects firms’ internal labor allocation decisions. Our findings indicate that when a CEO and a governor share the same political leaning, firms see a 0.65 percentage point higher employment growth in the corresponding state—a significant 38.2% increase over the average employment growth rate. This effect is more pronounced in firms with higher political polarization, in recent years, and under unified state governments. Using close gubernatorial elections as a plausibly exogenous source of variation in CEO-governor political alignment, we further mitigate concerns about reverse causality. Our results remain robust after controlling for CEO-state political connections and alignment between industries and governors.

We also explore the potential channels behind this effect. Our analyses show that the

political alignment effect cannot be explained by CEOs' personal political preferences, as it varies across industries, with firms in partisan-sensitive industries experiencing greater employment growth in aligned states. Instead, CEOs' optimism about local policies in politically aligned states appears to play an important role, as the effect is stronger in tradable industries than in non-tradable industries. Finally, political alignment driven labor allocation appears to reduce firm value, with lower stock returns following large employment expansions in aligned states, especially for firms with weak corporate governance.

Overall, this paper highlights the importance of political factors in shaping corporate decision-making. By examining the role of political alignment in firms' labor allocation decisions, we contribute to the literature that traditionally emphasizes efficiency and investment opportunities as primary determinants of resource allocation within firms. Our study suggests that external political considerations can be a crucial yet underappreciated factor in understanding firms' internal resource allocation.

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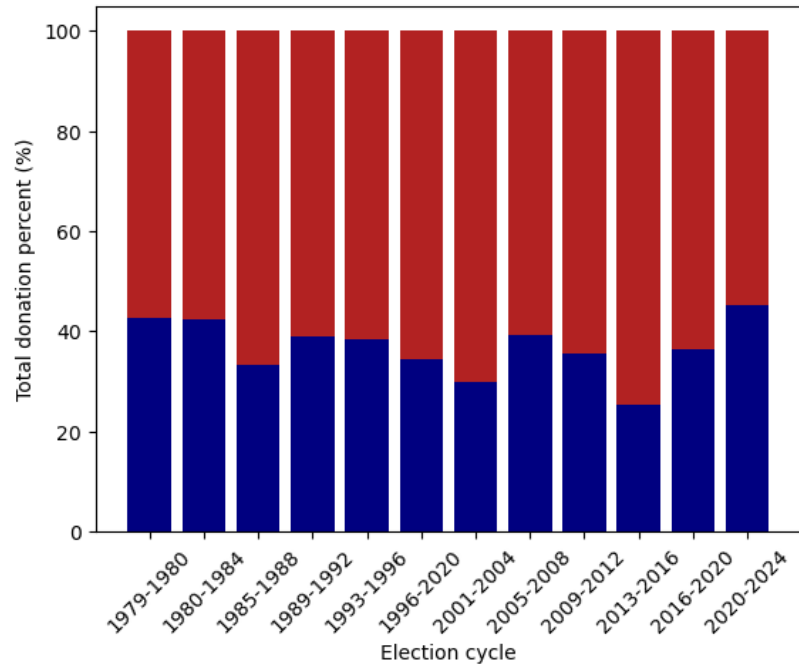
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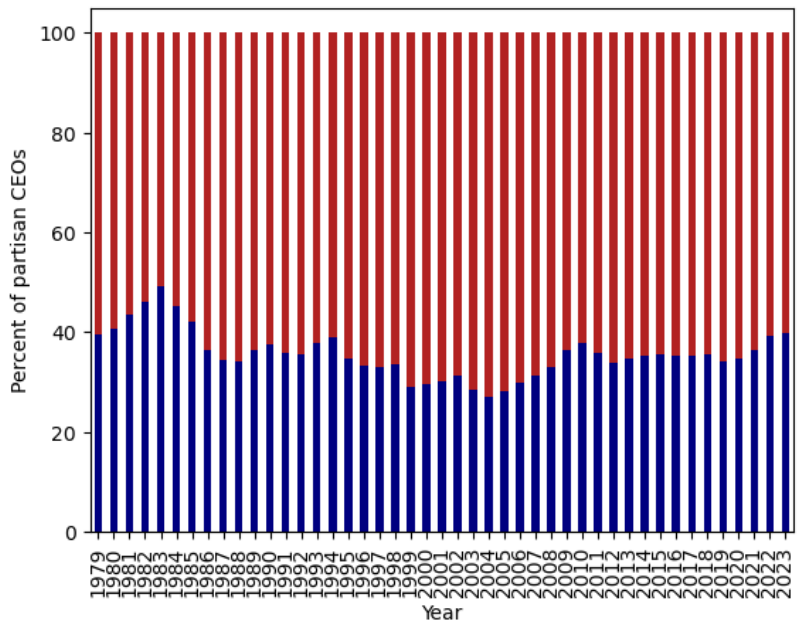
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Figure 1: political contribution and CEO distribution by party affiliation

This figure plots the distribution of political contributions and partisan CEOs over time. Panel (a) presents the proportion of CEO contribution amounts by party affiliation for each election cycle. Panel (b) shows the proportion of partisan CEOs for each year. In both panels, red represents the Republican Party, and blue represents the Democratic Party.



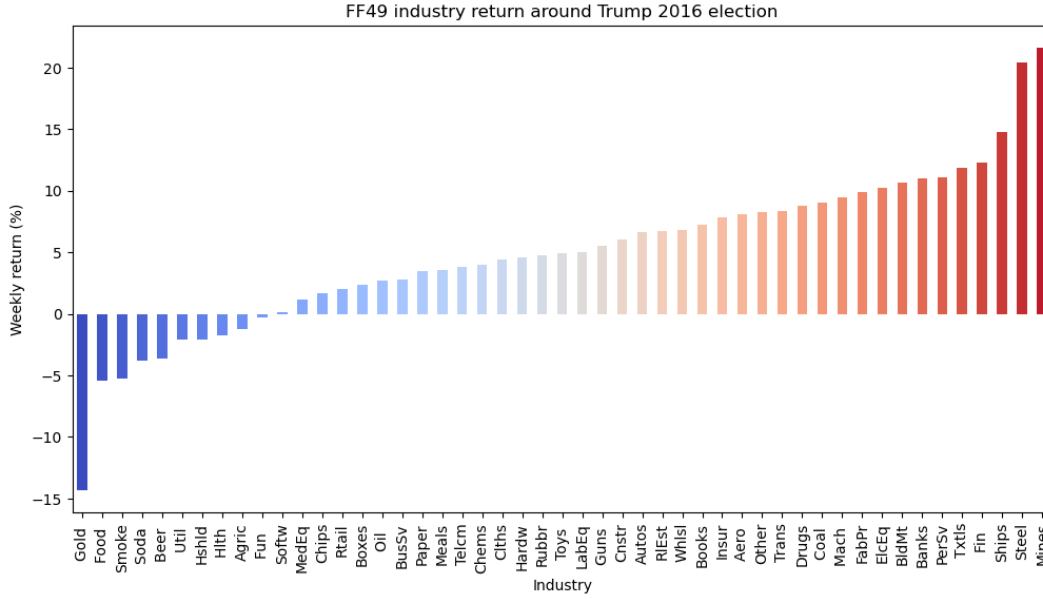
(a) Contribution percent by party



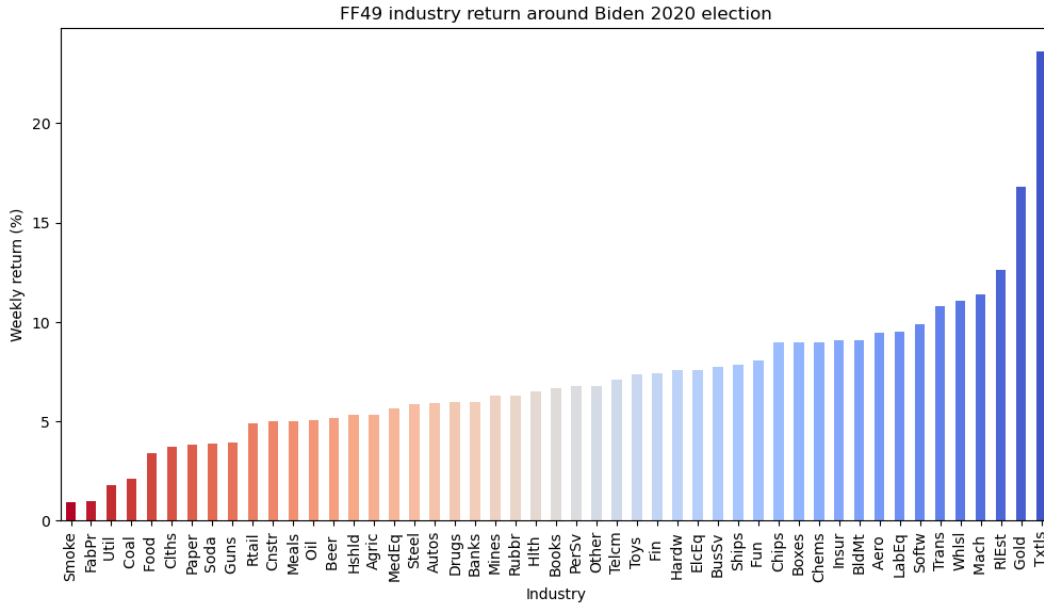
(b) Partisan CEO percent by party

Figure 2: Industry return around presidential election

This figure displays the stock returns for each of the Fama-French 49 industries during the week surrounding the 2016 and 2020 presidential elections (i.e., from three days before to three days after the election). Panel (a) focuses on the 2016 election. Since the Republican party won in 2016, industries that benefited the most (as reflected by higher returns) are highlighted in red, while those that benefited the least are shown in blue. Panel (b) shows the 2020 election, where the Democratic party won. Accordingly, industries that benefited the most from the Democratic victory are shown in blue, while those that benefited the least are in red.



(a)



(b)

Table 1: Summary Statistics

This table presents the summary statistics of key variables used in the empirical analyses. Please see [Table A1](#) for detailed variable definitions.

	Count	Mean	Median	STD
Employee	453,218	841.3	135	3050.1
Log(Emp)	453,218	4.83	4.91	2.04
Δ Log(Emp)	453,218	0.017	0	0.50
CEO-gov align	453,218	0.22	0	0.42
Total asset (\$Bil)	453,211	46.69	5.37	197.39
Leverage	452,731	0.27	0.24	0.20
Tobin's Q	453,203	1.92	1.55	1.14
Profitability	453,186	0.36	0.30	0.26
Cash	453,205	0.11	0.070	0.11
%Unemployment	453,218	5.67	5.20	2.07
GDP growth	453,218	0.041	0.041	0.032
Population growth	453,218	0.0075	0.0066	0.0065

Table 2: CEO-governor political alignment and employment growth

This table presents the relationship between CEO-governor political alignment and state-level employment growth. The dependent variable, $\Delta \log Emp_{i,s,t}$, measures the employment growth of firm i in state s from year $t-1$ to t . The independent variable, $Aligned_{i,s,t}$, is an indicator of whether firm i CEO is politically aligned with state s governor in year t . Control variables include firm size, leverage, Tobin's Q , cash holding, profitability, and state-level unemployment rate, log GDP growth, and log population growth in year $t-1$. Standard errors are clustered by firm and by year. T-statistics are reported in parentheses. *, **, *** indicate significance at the 10%, 5%, and 1% level, respectively.

	(1)	(2)	(3)
Aligned	0.0065** (2.18)	0.0059*** (2.84)	0.0061*** (3.21)
Log(Total asset)	0.0044 (0.63)		
Leverage	-0.0149 (-0.77)		
Tobin's Q	0.0033 (1.21)		
Cash	-0.0421 (-1.33)		
Profitability	0.1846*** (7.38)		
%Unemployment	-0.0014 (-0.87)	-0.0018 (-1.58)	
GDP growth	0.0394 (0.95)	0.0199 (0.52)	
Population growth	0.0747 (0.25)	0.0987 (0.42)	
Firm $\times$ State FE	✓	✓	✓
Year FE	✓		
Firm $\times$ Year FE		✓	✓
State $\times$ Year FE			✓
R^2	0.067	0.242	0.245
Observations	453,218	450,550	450,550

Table 3: Subsample analysis

This table presents the relationship between CEO-governor political alignment and state-level employment growth for different subsamples. Column (1)-(2) present results for polarized vs. less polarized CEOs. Polarized CEOs are CEOs who contribute exclusively to one party. Less-polarized CEOs are CEOs who contribute to both parties. Column (3)-(4) present results for CEOs who make above- vs. below-median total contribution amounts. Column (5)-(6) present results for the pre-2010 and post-2010 periods. Column (7)–(8) report results for unified and split state governments. A unified government occurs when both the governor and the state legislature are controlled by the same party—either Republican or Democratic. A split government occurs when the governor and legislature are controlled by different parties, or when the legislature itself (i.e., the state senate and state house) is divided. The dependent variable, $\Delta \log Emp_{i,s,t}$, measures the employment growth of firm i in state s from year $t-1$ to t . The independent variable, $Aligned_{i,s,t}$, is an indicator of whether firm i CEO is politically aligned with state s governor in year t . Control variables include firm size, leverage, Tobin's Q , cash holding, profitability, and state-level unemployment rate, log GDP growth, and log population growth in year $t-1$. Standard errors are clustered by firm and by year. T statistics are reported in parentheses. *, **, *** indicate significance at the 10%, 5%, and 1% level, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Polarized	Less polarized	More contribution	Less contribution	Pre 2010	Post 2010	Unified gov	Split gov
Aligned	0.0084*** (4.64)	0.0051 (1.28)	0.0068** (2.16)	0.0031 (0.66)	0.0033 (0.79)	0.0075*** (5.85)	0.0092** (2.61)	-0.0003 (-0.06)
Controls	✓	✓	✓	✓	✓	✓	✓	✓
Firm $\times$ State FE	✓	✓	✓	✓	✓	✓	✓	✓
Firm $\times$ Year FE	✓	✓	✓	✓	✓	✓	✓	✓
State $\times$ Year FE	✓	✓	✓	✓	✓	✓	✓	✓
R^2	0.322	0.280	0.282	0.313	0.250	0.285	0.330	0.435
Observations	99,021	95,457	127,319	106,598	157,798	288,905	201,591	94,064

Table 4: Close elections

This table presents the relationship between CEO-governor political alignment and state-level employment growth around close gubernatorial elections. We define a close election as one where the margin of victory between the winning and losing parties is less than 5%, and we focus only on the two years before and after such elections on each side. The dependent variable, $\Delta \log Emp_{i,s,t}$, measures the employment growth of firm i in state s from year $t-1$ to t . The independent variable, $Aligned_{i,s,t}$, is an indicator of whether firm i CEO is politically aligned with state s governor in year t . Control variables include firm size, leverage, Tobin's Q , cash holding, profitability, and state-level unemployment rate, log GDP growth, and log population growth in year $t-1$. Standard errors are clustered by firm and by year. T-statistics are reported in parentheses. *, **, *** indicate significance at the 10%, 5%, and 1% level, respectively.

	(1)	(2)	(3)
Aligned	0.0051 (0.92)	0.0129*** (3.38)	0.0133*** (3.16)
Log(Total asset)	0.0064 (0.72)		
Leverage	-0.0020 (-0.07)		
Tobin's Q	0.0038 (1.16)		
Cash	-0.0544 (-1.27)		
Profitability	0.1738*** (5.63)		
%Unemployment	0.0020 (0.54)	0.0034 (1.01)	
GDP growth	0.1771 (1.17)	0.1620 (1.06)	
Population growth	-0.1223 (-0.22)	0.1139 (0.20)	
Firm $\times$ State FE	✓	✓	✓
Year FE	✓		
Firm $\times$ Year FE		✓	✓
State $\times$ Year FE			✓
R^2	0.153	0.416	0.419
Observations	111,983	107,117	107,117

Table 5: State-level political connections

This table presents the relationship between CEO-governor political alignment and state-level employment growth after controlling for firms' state-level political connections. The dependent variable, $\Delta \log Emp_{i,s,t}$, measures the employment growth of firm i in state s from year $t-1$ to t . The independent variable, $Aligned_{i,s,t}$, is an indicator of whether firm i CEO is politically aligned with state s governor in year t . $Connected_{i,s,t}$ indicates if firm i 's CEO has contributed to candidates for the U.S. Senate or House from state s during the 10 years prior to year t . Control variables include firm size, leverage, Tobin's Q , cash holding, profitability, and state-level unemployment rate, log GDP growth, and log population growth in year $t-1$. Standard errors are clustered by firm and by year. T-statistics are reported in parentheses. *, **, *** indicate significance at the 10%, 5%, and 1% level, respectively.

	(1)	(2)	(3)
Aligned	0.0065** (2.14)	0.0059*** (2.86)	0.0062*** (3.23)
Connected	-0.0011 (-0.21)	-0.0051 (-1.11)	-0.0049 (-1.02)
Log(Total asset)	0.0044 (0.63)		
Leverage	-0.0149 (-0.77)		
Tobin's Q	0.0033 (1.21)		
Cash	-0.0421 (-1.33)		
Profitability	0.1846*** (7.38)		
%Unemployment	-0.0014 (-0.87)	-0.0018 (-1.58)	
GDP growth	0.0394 (0.95)	0.0199 (0.52)	
Population growth	0.0746 (0.25)	0.0980 (0.42)	
Firm $\times$ State FE	✓	✓	✓
Year FE	✓		
Firm $\times$ Year FE		✓	✓
State $\times$ Year FE			✓
R^2	0.067	0.242	0.245
Observations	453,218	450,550	450,550

Table 6: Industry-governor political alignment

This table presents the relationship between CEO-governor political alignment and state-level employment growth, after controlling for the industry-governor alignment effect. In column (1), industries are defined based on the Fama-French 49 classification. In columns (2) and (3), industries are based on 2- or 3-digit NAICS industry codes. The dependent variable, $\Delta \log Emp_{i,s,t}$, measures the employment growth of firm i in state s from year $t-1$ to t . The independent variable, $Aligned_{i,s,t}$, is an indicator of whether firm i CEO is politically aligned with state s governor in year t . Control variables include firm size, leverage, Tobin's Q , cash holding, profitability, and state-level unemployment rate, log GDP growth, and log population growth in year $t-1$. Standard errors are clustered by firm and by year. T-statistics are reported in parentheses. *, **, *** indicate significance at the 10%, 5%, and 1% level, respectively.

	(1) Fama-French 49	(2) 2-digit NAICS	(3) 3-digit NAICS
Aligned	0.0075*** (3.20)	0.0075*** (3.10)	0.0077*** (3.62)
Controls	✓	✓	✓
Firm $\times$ State FE	✓	✓	✓
Firm $\times$ Year FE	✓	✓	✓
Industry $\times$ State $\times$ Year FE	✓	✓	✓
R^2	0.331	0.291	0.367
Observations	441,251	447,208	427,233

Table 7: Partisan-sensitive industries

This table presents the relationship between CEO-governor political alignment and state-level employment growth for partisan-sensitive and insensitive industries separately. To measure an industry's partisan sensitivity, we examine one-week stock returns around the 2016 and 2020 presidential elections for each Fama-French 49 industry, rank them based on returns, and compare the change in rankings between the two elections. Industries with ranking changes exceeding the median threshold of 10 positions are classified as partisan-sensitive, while those with smaller changes are considered partisan-insensitive. Column (1)-(3) present the results for partisan-sensitive industries, and column (4)-(6) show results for partisan-insensitive industries. The dependent variable, $\Delta \log Emp_{i,s,t}$, measures the employment growth of firm i in state s from year $t-1$ to t . The independent variable, $Aligned_{i,s,t}$, is an indicator of whether firm i CEO is politically aligned with state s governor in year t . Control variables include firm size, leverage, Tobin's Q , cash holding, profitability, and state-level unemployment rate, log GDP growth, and log population growth in year $t-1$. Standard errors are clustered by firm and by year. T-statistics are reported in parentheses. *, **, *** indicate significance at the 10%, 5%, and 1% level, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
	Partisan-sensitive industries			Partisan-insensitive industries		
Aligned	0.0091** (2.60)	0.0104*** (3.16)	0.0106*** (3.28)	0.0038 (0.71)	0.0015 (0.47)	0.0019 (0.65)
Log(Total asset)	0.0119 (1.24)			-0.0022 (-0.26)		
Leverage	-0.0427* (-1.76)			0.0060 (0.21)		
Tobin's Q	-0.0008 (-0.15)			0.0062* (1.71)		
Cash	-0.0537 (-1.59)			-0.0253 (-0.53)		
Profitability	0.1908*** (4.29)			0.1810*** (5.24)		
%Unemployment	0.0005 (0.28)	0.0001 (0.07)		-0.0031* (-1.85)	-0.0035** (-2.36)	
GDP growth	0.1226 (1.61)	0.0757 (1.05)		-0.0357 (-0.84)	-0.0244 (-0.50)	
Population growth	-0.0928 (-0.24)	-0.1569 (-0.53)		0.2376 (0.71)	0.2926 (0.99)	
Firm $\times$ State FE	✓	✓	✓	✓	✓	✓
Year FE	✓			✓		
Firm $\times$ Year FE		✓	✓		✓	✓
State $\times$ Year FE			✓			✓
R^2	0.066	0.245	0.250	0.068	0.239	0.245
Observations	214,125	212,292	212,292	239,093	238,258	238,258

Table 8: Tradable vs. non-tradable industries

This table presents the relationship between CEO-governor political alignment and state-level employment growth in tradable vs. non-tradable industries, classified using [Barkai and Karger \(2020\)](#). The dependent variable, $\Delta \log Emp_{i,s,t}$, measures the employment growth of firm i in state s from year $t-1$ to t . The independent variable, $Aligned_{i,s,t}$, is an indicator of whether firm i CEO is politically aligned with state s governor in year t . Control variables include firm size, leverage, Tobin's Q , cash holding, profitability, and state-level unemployment rate, log GDP growth, and log population growth in year $t-1$. Standard errors are clustered by firm and by year. T statistics are reported in parentheses. *, **, *** indicate significance at the 10%, 5%, and 1% level, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
	Tradable industries			Non-tradable industries		
Aligned	0.0160** (2.68)	0.0112* (1.93)	0.0106* (1.85)	0.0064 (1.54)	0.0047* (1.82)	0.0054** (2.11)
Controls	✓	✓	✓	✓	✓	✓
Firm $\times$ State FE	✓	✓	✓	✓	✓	✓
Year FE	✓			✓		
Firm $\times$ Year FE		✓	✓		✓	✓
State $\times$ Year FE			✓			✓
R^2	0.059	0.205	0.216	0.066	0.248	0.254
Observations	105,380	104,205	104,203	197,383	196,326	196,326

Table 9: Value implication of partisan allocation

This table shows the relationship between partisan labor allocation and subsequent stock returns. The dependent variable, $Return_{i,t+1}$, measures the stock return of firm i in year $t+1$. The independent variable, $Partisan\ Allocation_{i,t}$, is an indicator of whether firm i expands more in politically-aligned states than in politically-misaligned states in year t . Control variables include firm size, leverage, Tobin's Q , cash holding, profitability, firm-level employment growth, and capital expenditure in year t . Standard errors are clustered by firm and by year. T-statistics are reported in parentheses. *, **, *** indicate significance at the 10%, 5%, and 1% level, respectively.

	(1)	(2)
Partisan Allocation	-0.0132*** (-3.03)	-0.0146*** (-2.91)
Log(Total asset)	-0.1697*** (-10.44)	-0.1694*** (-9.62)
Leverage	0.1329*** (3.07)	0.1328*** (3.12)
Tobin's Q	-0.0795*** (-8.40)	-0.0804*** (-8.31)
Cash	-0.1548** (-2.79)	-0.1642*** (-2.99)
Profitability	-0.0155 (-0.28)	0.0420 (0.68)
Emp Growth		-0.0034 (-0.44)
CapEx		-0.6327*** (-3.97)
Firm FE	✓	✓
Year FE	✓	✓
R^2	0.290	0.302
Observations	25,166	24,304

Table 10: Political alignment effect by corporate governance

This table presents the relationship between CEO-governor political alignment and state-level employment growth for firms with above- and below-median corporate governance, measured using Morningstar Sustainalytics scores. Because the data ends in 2019, we apply the 2019 score to subsequent years to align with the main sample period. *Poor governance* is a dummy that equals to 1 if firm *i*'s governance score is at or below median in year *t*, and 0 otherwise. The dependent variable, $\Delta \log Emp_{i,s,t}$, measures the employment growth of firm *i* in state *s* from year *t*-1 to *t*. The independent variable, *Aligned*_{*i,s,t*}, is an indicator of whether firm *i* CEO is politically aligned with state *s* governor in year *t*. Control variables include firm size, leverage, Tobin's *Q*, cash holding, profitability, and state-level unemployment rate, log GDP growth, and log population growth in year *t*-1. Standard errors are clustered by firm and by year. *T* statistics are reported in parentheses. *, **, *** indicate significance at the 10%, 5%, and 1% level, respectively.

	(1)	(2)	(3)
Aligned $\times$ Poor governance	0.0204** (2.57)	0.0101** (2.41)	0.0105** (2.41)
Aligned	-0.0019 (-0.30)	0.0021 (0.60)	0.0015 (0.47)
Poor governance	0.0012 (0.14)		
Controls	✓	✓	✓
Firm $\times$ State FE	✓	✓	✓
Year FE	✓		
Firm $\times$ Year FE		✓	✓
State $\times$ Year FE			✓
R^2	0.092	0.281	0.284
Observations	201,215	200,826	200,826

Table 11: Executive-governor political alignment

This table presents the relationship between executive-governor political alignment and state-level employment growth. The dependent variable, $\Delta \log Emp_{i,s,t}$, measures the employment growth of firm i in state s from year $t-1$ to t . The independent variable, $Executive\text{-}gov\ aligned_{i,s,t}$, is an indicator of whether firm i 's CEO executive team is politically aligned with state s governor in year t . A firm's executive team is considered Republican-leaning if it has a greater number of Republican executives than Democrats, and vice versa. Control variables include firm size, leverage, Tobin's Q , cash holding, profitability, and state-level unemployment rate, log GDP growth, and log population growth in year $t-1$. Standard errors are clustered by firm and by year. T-statistics are reported in parentheses. *, **, *** indicate significance at the 10%, 5%, and 1% level, respectively.

	(1)	(2)	(3)
Executive-gov aligned	0.0073*** (2.84)	0.0035** (2.20)	0.0036** (2.45)
Log(Total asset)	0.0042 (0.61)		
Leverage	-0.0149 (-0.77)		
Tobin's Q	0.0033 (1.22)		
Cash	-0.0420 (-1.33)		
Profitability	0.1844*** (7.37)		
%Unemployment	-0.0014 (-0.87)	-0.0018 (-1.59)	
GDP growth	0.0395 (0.95)	0.0199 (0.52)	
Population growth	0.0794 (0.26)	0.0966 (0.41)	
Firm $\times$ State FE	✓	✓	✓
Year FE	✓		
Firm $\times$ Year FE		✓	✓
State $\times$ Year FE			✓
R^2	0.067	0.242	0.245
Observations	453,218	450,550	450,550

Table 12: Robustness tests

This table presents robustness tests. Column (1) runs the main regression focusing on partisan firms. Column (2) uses the full contribution history of CEOs to create a time-invariant measure of their political leaning. Column (3) presents a continuous measure of CEO-governor political alignment. Column (4) excludes the state where a firm's headquarter locates from the main regression. Column (5) applies a narrower margin of 2.5% as an alternative definition of close elections. The dependent variable is $\Delta \log Emp_{i,s,t}$, which measures the employment growth of firm i in state s from year $t-1$ to t . The independent variable, $Aligned_{i,s,t}$, is an indicator of whether firm i CEO is politically aligned with state s governor in year t . Control variables include firm size, leverage, Tobin's Q , cash holding, profitability, and state-level unemployment rate, log GDP growth, and log population growth in year $t-1$. Standard errors are clustered by firm and by year. T-statistics are reported in parentheses. *, **, *** indicate significance at the 10%, 5%, and 1% level, respectively.

	(1)	(2)	(3)	(4)	(5)
	Partisan firms	All contributions	Continuous	Exclude HQ	Margin $\leq 2.5\%$
Aligned	0.0060*** (3.59)	0.0048** (2.70)	0.0033*** (3.10)	0.0057** (2.61)	0.0155* (1.93)
Controls	✓	✓	✓	✓	✓
Firm $\times$ State FE	✓	✓	✓	✓	✓
Firm $\times$ Year FE	✓	✓	✓	✓	✓
State $\times$ Year FE	✓	✓	✓	✓	✓
R^2	0.276	0.245	0.245	0.251	0.552
Observations	188,266	450,550	450,550	425,192	44,868

Appendix

Table A1: Variable definition

Variable	Definition
$\Delta \log Emp_{i,s,t}$	The employment growth of firm i in state s in year t . It is calculated as the logarithm of the firm i 's employee count in state s in year t minus the logarithm of firm i 's employee count in state s in year $t - 1$: $\Delta \log Emp_{i,s,t} = \log(Emp_{i,s,t}) - \log(Emp_{i,s,t-1})$.
$Aligned_{i,s,t}$	A dummy that equals 1 if firm i CEO is politically aligned state s governor in year t , where a CEO's political leaning is inferred using its past 10-year political donations.
$\log(Total\ asset_{i,t})$	The natural logarithm of total assets of firm i in year t (Compustat item: AT).
$Leverage_{i,t}$	The ratio of the sum of debt in current liabilities (Compustat item: DLC) and long-term debt (Item: DLTT) to assets (Item: AT) for firm i in year t .
$Tobin's\ Q_{i,t}$	Calculated as $((PRCC_F \times CSHO) + AT - CEQ)/AT$ for firm i in year t .
$Cash_{i,t}$	Calculated as cash holdings (Compustat item: CHE) scaled by total assets (Item: AT) for firm i in year t .
$Profitability_{i,t}$	Calculated as revenue minus cost of goods sold in year t scaled by total assets in year $t - 1$ (Compustat item: $(REVT_t - COGS_t)/AT_{t-1}$).
$\%Unemployment_{s,t}$	The unemployment rate of state s in year t .
$GDP\ growth_{s,t}$	Calculated as the logarithm of the GDP of state s in year t minus the logarithm of the GDP of state s in year $t - 1$: $GDP\ growth_{s,t} = \log(GDP_{s,t}) - \log(GDP_{s,t-1})$.
$Population\ growth_{s,t}$	Calculated as the logarithm of the population of state s in year t minus the logarithm of the population of state s in year $t - 1$: $Population\ growth_{s,t} = \log(POP_{s,t}) - \log(POP_{s,t-1})$.
$Connected_{i,s,t}$	An indicator of whether firm i is potentially politically connected with state s in year t . It equals one if firm i 's CEO has contributed to candidates for the U.S. Senate or House representing state s in the 10 years prior to year t .
$Return_{i,t}$	The stock return of firm i in year t .
$Partisan\ Allocation_{i,t}$	A measure of a firm's tendency toward partisan labor allocation. It indicates whether a firm i increases employment more in politically-aligned states than in nonaligned states in year t . It is calculated as: $Partisan\ Allocation_{i,t} = \mathbb{1}(\sum_{s=1}^n \Delta Emp_{s,i,t} \times aligned_{s,i,t} - \sum_{s=1}^n \Delta Emp_{s,i,t} \times misaligned_{s,i,t})$
$Emp\ growth_{i,t}$	Firm-level employment growth of firm i from year $t - 1$ to year t .
$CapEx_{i,t}$	Total capital expenditure of firm i in year t .
Executive-gov align $_{i,s,t}$	A dummy that equals 1 if firm i 's CEO executive team is politically aligned with state s governor in year t . An executive team is considered Republican-leaning if it has more Republican executives than Democrats, and vice versa.

Internet Appendix for “Where to Hire? Political Alignment and Internal Labor Allocation”

Figure IA1: State governor political leaning

This map shows the political leaning of U.S. state governors at four-year intervals and the last sample year. Red and blue indicate continued Republican and Democratic governorships, respectively. Light blue marks a shift from Republican to Democrat, and light red from Democrat to Republican. Gray denotes states where the previous or current governor is neither Republican nor Democrat.

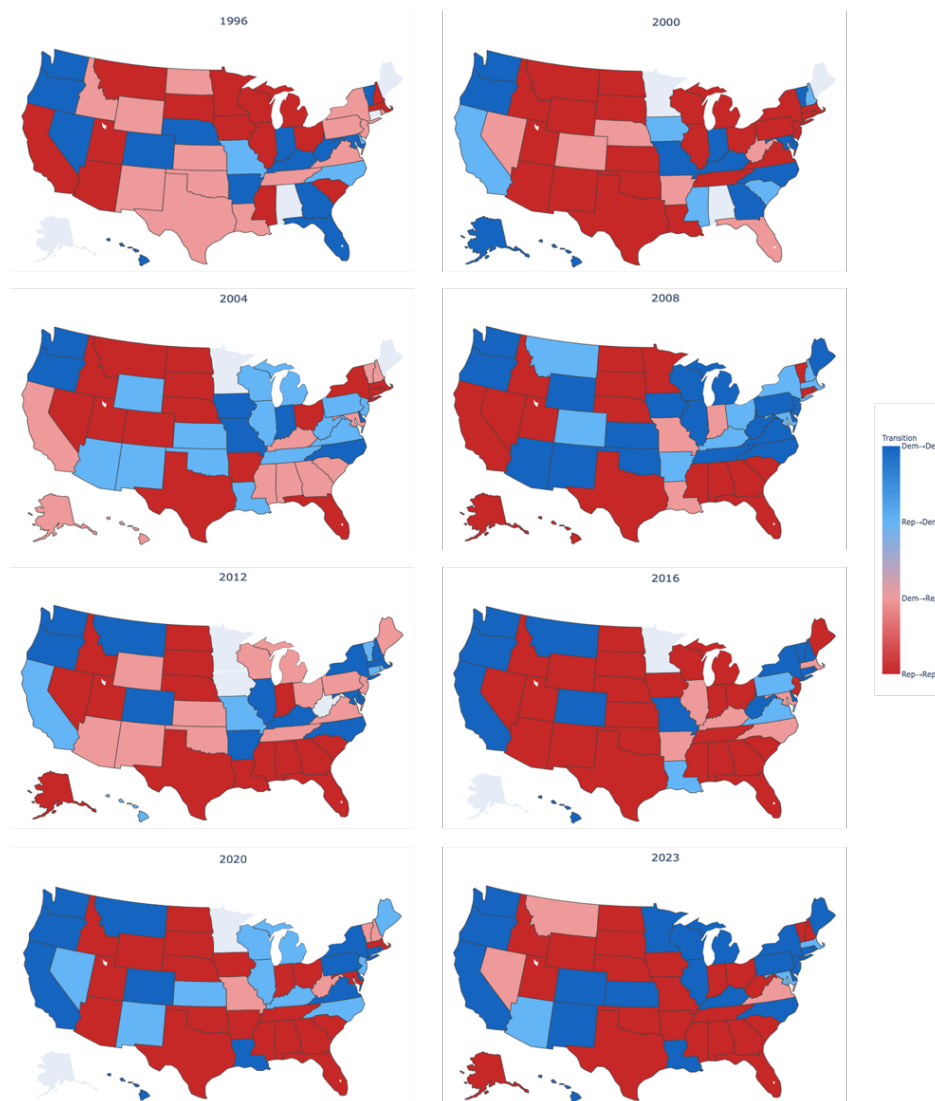


Figure IA2: Industry partisan sensitivity

This figure shows the partisan sensitivity of each Fama-French 49 industry, based on changes in their stock market ranking responses to the 2016 and 2020 presidential elections. Industries are sorted by changes in weekly return rankings around each election, with large positive (negative) values indicating a preference for Democratic (Republican) policies.

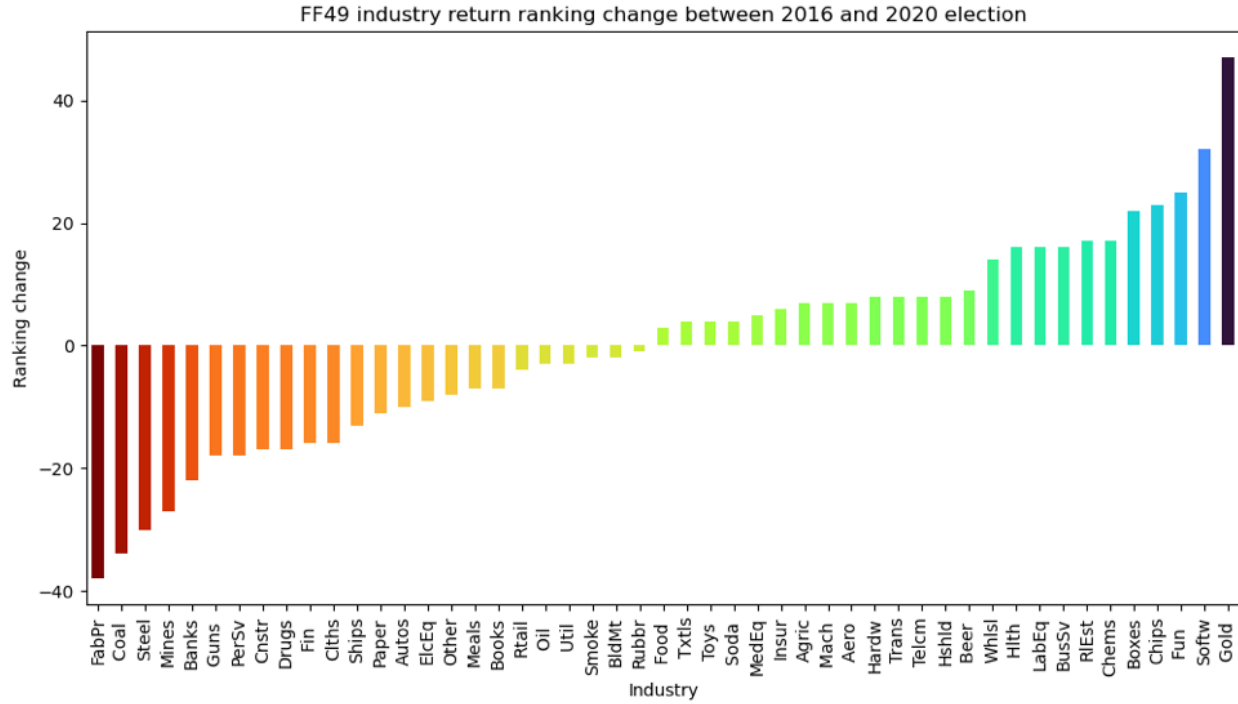


Table IA1: Most Republican and Democratic donating CEOs

This table displays the top 10 CEOs by total contributions to the Republican and Democratic party. Rankings are based on their entire contribution history throughout the sample period.

Rank	CEO Name	Company Name
Panel A: Top 10 Republican donating CEOs		
1	Sheldon Gary Adelson	Las Vegas Sands Corp
2	Stephen A. Wynn	Mirage Resorts Inc, Wynn Resorts Ltd
3	Paul L. Foster	Western Refining Inc
4	Larry A. Mizel	Mdc Holdings Inc
5	Gregg L. Engles	Whitewave Foods Co, Dean Foods Co
6	Charles B. Johnson	Franklin Resources Inc
7	Carl Henry Lindner	American Financial Group Inc
8	Daniel Paul Amos	Aflac Inc
9	Stephen I. Chazen	Occidental Petroleum Corp
10	Richard T. Farmer	Cintas Corp
Panel B: Top 10 Democratic donating CEOs		
1	Jeffrey Katzenberg	Dreamworks Animation Skg Inc
2	Eric E. Schmidt	Novell Inc, Alphabet Inc
3	Leonard A. Lauder	Estee Lauder Companies Inc
4	Robert A. Katz	Vail Resorts Inc
5	Warren E. Buffett	Berkshire Hathaway
6	Jack Clifford Bendheim	Phibro Animal Health Corp
7	Robert I. Toll	Toll Brothers Inc
8	Stephen James Luczo	Seagate Technology Holdings
9	Charles William Ergen	Dish Network Corp, Echostar Corp
10	Robert E. Price	Pricesmart Inc

Table IA2: Dynamic effect over election cycle

This table presents the dynamic relationship between CEO-governor political alignment and state-level employment growth over the gubernatorial election cycle. The dependent variable, $\Delta \log Emp_{i,s,t}$, measures the employment growth of firm i in state s from year $t-1$ to t . The independent variable, $Aligned_{i,s,t}$, is an indicator of whether firm i CEO is politically aligned with state s governor in year t . Year 1, Year 2, Year 3, and Year 4 indicate the 1st, 2nd, 3rd, and 4th year after each gubernatorial election. Control variables include firm size, leverage, Tobin's Q , cash holding, profitability, and state-level unemployment rate, log GDP growth, and log population growth in year $t-1$. Standard errors are clustered by firm and by year. T-statistics are reported in parentheses. *, **, *** indicate significance at the 10%, 5%, and 1% level, respectively.

	(1)	(2)	(3)
Aligned $\times$ Year 1	0.0020 (0.50)	0.0034 (0.92)	0.0056 (1.54)
Aligned $\times$ Year 2	0.0098** (2.10)	0.0115*** (2.89)	0.0097** (2.22)
Aligned $\times$ Year 3	0.0074* (1.93)	0.0037 (0.93)	0.0045 (1.12)
Aligned $\times$ Year 4	0.0066 (1.52)	0.0047 (1.39)	0.0046 (1.07)
Controls	✓	✓	✓
Firm $\times$ State FE	✓	✓	✓
Year FE	✓		
Firm $\times$ Year FE		✓	✓
State $\times$ Year FE			✓
R^2	0.067	0.242	0.245
Observations	453,218	450,550	450,550

Table IA3: Partisan-sensitive vs. insensitive industries

This table presents partisan-sensitive and partisan-insensitive industries with their respective return ranking changes around the 2016 and 2020 presidential election.

Partisan Sensitive Industries		Partisan Insensitive Industries	
Precious Metals	47	Beer & Liquor	9
Fabricated Products	38	Electrical Equipment	9
Coal	34	Communication	8
Computer Software	32	Almost Nothing	8
Steel Works Etc	30	Transportation	8
Non-Metallic & Industrial Metal Mining	27	Consumer Goods	8
Entertainment	25	Computer Hardware	8
Electronic Equipment	23	Aircraft	7
Banking	22	Restaraunts, Hotels, Motels	7
Shipping Containers	22	Printing and Publishing	7
Personal Services	18	Machinery	7
Defense	18	Agriculture	7
Pharmaceutical Products	17	Insurance	6
Construction	17	Medical Equipment	5
Chemicals	17	Recreation	4
Real Estate	17	Textiles	4
Business Services	16	Retail	4
Measuring and Control Equipment	16	Candy & Soda	4
Healthcare	16	Petroleum and Natural Gas	3
Trading	16	Utilities	3
Apparel	16	Food Products	3
Wholesale	14	Tobacco Products	2
Shipbuilding, Railroad Equipment	13	Construction Materials	2
Business Supplies	11	Rubber and Plastic Products	1
Automobiles and Trucks	10		

Table IA4: Political alignment effect by corporate governance (2009-2019)

This table presents the relationship between CEO-governor political alignment and state-level employment growth for firms with above- and below-median corporate governance from 2009 to 2019, based on actual Sustainalytics scores. *Poor governance* is a dummy that equals to 1 if a firm's governance score is at or below median, and 0 otherwise. The dependent variable, $\Delta \log Emp_{i,s,t}$, measures the employment growth of firm i in state s from year $t-1$ to t . The independent variable, $Aligned_{i,s,t}$, is an indicator of whether firm i CEO is politically aligned with state s governor in year t . Control variables include firm size, leverage, Tobin's Q , cash holding, profitability, and state-level unemployment rate, log GDP growth, and log population growth in year $t-1$. Standard errors are clustered by firm and by year. T statistics are reported in parentheses. *, **, *** indicate significance at the 10%, 5%, and 1% level, respectively.

	(1)	(2)	(3)
Aligned $\times$ Poor governance	0.0290** (3.13)	0.0104* (2.07)	0.0112* (2.22)
Aligned	-0.0088 (-0.97)	0.0041 (1.00)	0.0036 (0.93)
Poor governance	-0.0048 (-0.56)		
Controls	✓	✓	✓
Firm $\times$ State FE	✓	✓	✓
Year FE	✓		
Firm $\times$ Year FE		✓	✓
State $\times$ Year FE			✓
R^2	0.117	0.304	0.307
Observations	158,247	157,971	157,971

Table IA5: Political alignment effect by ES score

This table shows the relationship between CEO-governor political alignment and state-level employment growth for firms with above- vs. below-median environmental and social (ES) scores. The ES score is the average of firm *i*'s Environmental and Social scores from Sustainalytics in year *t*. *Poor ES* is a dummy equal to 1 if the ES score is at or below the median for firm *i* in year *t*, and 0 otherwise. The dependent variable, $\Delta \log Emp_{i,s,t}$, measures the employment growth of firm *i* in state *s* from year *t*-1 to *t*. The independent variable, $Aligned_{i,s,t}$, is an indicator of whether firm *i* CEO is politically aligned with state *s* governor in year *t*. Control variables include firm size, leverage, Tobin's *Q*, cash holding, profitability, and state-level unemployment rate, log GDP growth, and log population growth in year *t*-1. Standard errors are clustered by firm and by year. T statistics are reported in parentheses. *, **, *** indicate significance at the 10%, 5%, and 1% level, respectively.

	(1)	(2)	(3)
Aligned $\times$ Poor ES	-0.0132 (-1.23)	0.0066 (1.12)	0.0067 (1.16)
Aligned	0.0149*** (3.02)	0.0045 (1.43)	0.0041 (1.25)
Poor ES	0.0040 (0.51)		
Controls	✓	✓	✓
Firm $\times$ State FE	✓	✓	✓
Year FE	✓		
Firm $\times$ Year FE		✓	✓
State $\times$ Year FE			✓
R^2	0.092	0.281	0.284
Observations	201,215	200,826	200,826

Table IA6: Democratic vs. Republican political alignment

This table presents the relationship between CEO-governor political alignment and state-level employment growth for Democrats and Republicans separately. The dependent variable, $\Delta \log Emp_{i,s,t}$, measures the employment growth of firm i in state s from year $t-1$ to t . The independent variable, $Aligned_{i,s,t}$, is an indicator of whether firm i CEO is politically aligned with state s governor in year t . Dem is an indicator variable set to 1 if the governor is a Democrat. Rep is an indicator variable if the governor is a Republican. Control variables include firm size, leverage, Tobin's Q , cash holdings, profitability, and state-level unemployment rate, log GDP growth, and log population growth in year $t-1$. Standard errors are clustered by firm and by year. T-statistics are reported in parentheses. *, **, *** indicate significance at the 10%, 5%, and 1% level, respectively.

	(1)	(2)	(3)
Aligned $\times$ Dem	0.0059 (1.03)	0.0058* (1.95)	0.0055 (1.39)
Aligned $\times$ Rep	0.0067* (1.72)	0.0059** (2.18)	0.0066** (2.26)
Log(Total asset)	0.0044 (0.63)		
Leverage	-0.0149 (-0.77)		
Tobin's Q	0.0033 (1.21)		
Cash	-0.0421 (-1.33)		
Profitability	0.1846*** (7.39)		
%Unemployment	-0.0014 (-0.85)	-0.0018 (-1.56)	
GDP growth	0.0395 (0.94)	0.0199 (0.52)	
Population growth	0.0762 (0.25)	0.0991 (0.42)	
Firm $\times$ State FE	✓	✓	✓
Year FE	✓		
Firm $\times$ Year FE		✓	✓
State $\times$ Year FE			✓
R^2	0.067	0.242	0.245
Observations	453,218	450,550	450,550