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Political Polarization and Venture Capital Investment

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May 2025

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We owe thanks to the seminar participants at Florida Atlantic University.

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Abstract

Political homogeneity preferences can significantly impact venture capital (VC) and startup ecosystems, creating challenges and opportunities associated with exacerbated uncertainty and behavioral biases. On the one hand, political homogeneity preferences could worsen VC markets due to problems with cooperation and information sharing. On the other hand, VCs are very sophisticated financial intermediaries, and the standard negative political polarization outcomes in other contexts might not necessarily apply to VCs. U.S. data from 1990-2021 indicate that political homogeneity preferences shrink the number of syndicated investors, lengthen the time between staged investment rounds, reduce the total number of staged rounds, lower the likelihood of IPO and acquisition exit outcomes, and reduce IPO valuations.

Keywords: Political Polarization, Venture Capital, IPO, Acquisition, Staging, Syndication, Valuation

JEL Classifications: D72, G24, G34

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Political Polarization and Venture Capital Investment

Abstract

Political homogeneity preferences can significantly impact venture capital (VC) and startup ecosystems, creating challenges and opportunities associated with exacerbated uncertainty and behavioral biases. On the one hand, political homogeneity preferences could worsen VC markets due to problems with cooperation and information sharing. On the other hand, VCs are very sophisticated financial intermediaries, and the standard negative political polarization outcomes in other contexts might not necessarily apply to VCs. U.S. data from 1990-2021 indicate that political homogeneity preferences shrink the number of syndicated investors, lengthen the time between staged investment rounds, reduce the total number of staged rounds, lower the likelihood of IPO and acquisition exit outcomes, and reduce IPO valuations.

Keywords: Political Polarization, Venture Capital, IPO, Acquisition, Staging Syndication

JEL Codes: D72, G24, G34

"America's polarized politics can be hazardous to your investment returns"[1]
"Protecting innovation: The need to keep politics out of startup funding"[2]
"Venture Investors Stirred the Political Pot This Year. LPs Weren't Thrilled."[3]
"They watch CNN? What the f$%k are they doing living in our neighborhood?"[4]

1 Introduction

Partisanship continues to be the dividing line in the American public's political attitudes, far surpassing differences by age, race and ethnicity, gender, educational attainment, religious affiliation, or other factors (Pew Research Center, 2019). Understanding how political polarization at the firm level influences the capital market is crucial for investors, policymakers, and business leaders. Research shows growing emotional polarization and a growing sense of bias and distrust among party members, not just in politics but in all aspects of personal life. From choosing a spouse to deciding where to live, party affiliation plays an increasingly important role. Therefore, exploring the influence of political polarization on the economic field has become an urgent task in the study of business, entrepreneurship, and finance.

In this paper, we consider whether political polarization affects venture capital (VC) investment activities, including staging, syndication, IPO and acquisition exit outcomes, and

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[1] https://www.marketwatch.com/story/why-political-polarization-can-be-hazardous-to-your-wealth-cbdf381f

[2] https://www.thedailystar.net/tech-startup/news/protecting-innovation-the-need-keep-politics-out-startup-funding-3700076

[3] https://www.wsj.com/articles/venture-investors-stirred-the-political-pot-this-year-lps-werent-thrilled-66d3199f

[4] Overheard at a Florida social gathering in January 2024. Similarly, it has been reported that "It's been clear for quite a while now that red America and blue America are becoming like two different countries claiming the same territory, with two different versions of the Constitution, economics, and American history. But Babel is not a story about tribalism; it's a story about the fragmentation of everything. It's about the shattering of all that had seemed solid, the scattering of people who had been a community. It's a metaphor for what is happening not only between red and blue, but within the left and within the right, as well as within universities, companies, professional associations, museums, and even families." https://www.theatlantic.com/magazine/archive/2022/05/social-media-democracy-trust-babel/629369/

total deal volume. The question is an interesting one, as VCs are amongst the most sophisticated financial intermediaries, and so the impact of political polarization among VCs will not necessarily be the same as in other financial market contexts such as mutual funds investing in stock markets (Li and Chi, 2013; Evans et al., 2022; Vorsatz, 2022) or for all private investment in general (Azzimonti, 2018). And since VCs are widely the money for research and invention (Bertoni and Tykvova, 2015; Dushnitsky and Yu, 2022), this issue how political polarization affects VC markets is an important one (Weik et al., 2024).

Important prior work informs our perspectives and understanding on possible channels of influence between political polarization and VC. Prior work in both finance and entrepreneurship is pertinent to our question. On the financial side, prior and contemporaneous work has shown that political climates affect investor optimism when their preferred party is in power (Bonaparte et al., 2017), political disagreement increases trading volume (Goldman et al., 2024), and political polarization affects corporate investment (Kempf and Tsoutsoura, 2024; Leng et al., 2024). On the entrepreneurship side, prior work has shown that political polarization affects teamwork (Javidan et al., 2023), and populist discourse reduces entrepreneurship due to regime uncertainty and institutional instability (Bennett et al., 2023).

Prior research specifically on VCs has documented an important influence of political connections on VC performance and exits (Wang and Wu, 2020); and there are studies on governments acting as venture capitalists (Alperovych et al., 2020; Bertoni and Tykvova, 2015; Grilli and Murtinu, 2014; Zhang and Gu, 2024). Whether political polarization affects VC is not immediately obvious based on prior work, since it could be argued either way. VCs play a critical role in addressing market failures, including mitigating information asymmetry,

overcoming financial constraints and in times of crisis, facilitating innovation, and by providing a network of supplies, customers, accountants, lawyers, consultants, and investment bankers that can help entrepreneurial firms grow (Conti et al., 2019; Croce et al., 2013). Some VCs even thrive at dealing with radical changes and innovation strategies (Colombo et al., 2023). Hence, we might conjecture that VCs can benefit from political polarization. If so, that finding would be useful to know, as there are policy implications on the role of VC in overcoming political polarization. On the other hand, VCs, even as sophisticated financial intermediaries, may nevertheless still suffer and be unable to overcome the costs of political polarization, and be subject to biases of coinvesting with similar politically minded investors. If so, that finding provides a darker lesson about the severity of the problems of political polarization and suggests more work is needed to figure out solutions to the problems.

In this paper, we assemble U.S. political polarization data using data from the Federal Election Commission (FEC) and Political Action Committee (PAC). We merge these data with U.S. PitchBook VC data for the years 1990-2021. The data examined show the following. First, we consider whether political polarization reduces the propensity to syndicate deals. Syndication enables risk sharing, better screening, monitoring, and value-added advice to entrepreneurial firms. The data examined here show that preferences for political homogeneity significantly reduce the propensity for VCs to syndicate. Second, we consider whether VC staged deal rounds are significantly longer, all else being equal, when there is stronger political homogeneity. The data show that preferences for political homogeneity cause a notable increase in time between staged investment rounds, regardless of the need for more active monitoring of entrepreneurial firms. Third, we examine total deal activity. The data indicate

that a preference for political homogeneity reduces the total number of VC deals, all else being equal. Fourth, we examine VC exit outcomes. VCs normally invest for 3-5 years, and seek IPO and acquisition exits as first-best outcomes. The data indicate that preferences for political homogeneity significantly reduce the likelihood of IPOs and acquisitions. The data further indicate that preferences for political homogeneity significantly reduce IPO valuations. These findings are robust to several checks, including cross-sectional checks of partisan conflict, different industry and sector fixed effects, among others.

This paper is organized as follows. Section 2 discusses prior literature and presents our hypotheses. The data are introduced in Section 3. Empirical tests are provided in Section 4. The final section concludes.

2. Theoretical Framework and Hypotheses

2.1.The Cost and Benefit of Political Polarization and Homogeneity

Investor political homogeneity refers to a situation where investors share similar political beliefs or affiliations. This consistency reduces political conflict among them, possibly making it easier to reach agreements on investment strategies and decisions. When investors align politically, they could be more likely to collaborate effectively, fostering a supportive environment that can enhance the overall monitoring, encourage syndication, improve the success rate of VC exits, and enable more investments. In contrast, diverse political views might lead to disagreements, slowing down decision-making, and hindering successful outcomes.

Investor's political polarization refers to the extent to which an investor's political

preferences are aligned with one end of the political spectrum (e.g., liberal or conservative) and how sharply these preferences differ from investors on the opposite end. In a polarized environment, investors tend to support or oppose companies or causes based on their political alignment, potentially influencing their investment decisions and behavior.

Homogeneous political views can limit the diversity of perspectives and strategies, which is essential for innovation and adaptability in a dynamic market. Investors with similar political beliefs may engage in groupthink, leading to narrow decision-making, reduced creativity, and missed opportunities. Furthermore, political homogeneity can limit access to diverse social networks and resources, as investors may primarily connect with like-minded individuals, restricting valuable connections outside their political sphere. This lack of diversity can hinder the ability to identify new market trends, reduce flexibility in responding to challenges, and ultimately decrease the success rate of VC exits.

Political beliefs influence financial decisions, shareholder activism, and corporate governance. Prior work has examined whether this assortative matching generates inefficiencies for firms and teams and whether the economic cost of partisan sorting can be quantified. Lee et al., (2014) find that greater political alignment between the CEO and independent directors is associated with lower firm performance and higher CEO entrenchment. Evans et al., (2022) find that mutual fund teams with diverse political views outperform homogeneous teams by approximately 1.8% annually on a risk-adjusted basis, adding about $2 million in economic value each year. Consistent with the finding that excessive partisanship can hurt fund performance, Vorsatz (2022) shows mutual funds dominated by partisan managers had inferior performance to non-partisan teams during the Covid-19 pandemic. Rice

(2023) shows that firms run by managers who are politically aligned with the president exhibit higher levels of investment and these investments are associated with lower stock returns and operating performance, indicating a potential distortion.

Political alignment may not only influence the formation and performance of teams within the same organization, but it can also influence the formation of relationships and transactions between organizations. Duchin et al. (2023) find that the rise of political polarization has negatively impacted the U.S. real asset market, leading to a decrease in mergers between politically divergent firms, with significant implications for merger outcomes and performance. They find that companies that are less politically compatible are less likely to merge, and this relationship has strengthened over time.

Consistent with partisan disagreement generating a motive for trading, Cookson et al., (2020) find that greater partisan disagreement on StockTwits during the Covid-19 pandemic was associated with substantially higher abnormal stock turnover. Finally, Luo, et al., (2023) provide evidence that distrust of politically affiliated media leads to a lower responsiveness of stock prices to news reports.

2.2. Hypotheses

Political polarization can manifest in several ways in the VC context. Investors may prefer to fund companies whose leadership or business practices align with their political views. Politically polarized investors may vote for or against corporate decisions (e.g., board elections, mergers) based on political ideologies rather than purely financial considerations. Extreme political views among investors could affect market dynamics, as companies might cater to or

be influenced by politically polarized investors.

Political polarization can lead to disagreements on key decisions, such as exit timing and strategy (IPO or M&A). This can slow down the decision-making process and cause delays in the execution of the exit strategy. For example, polarization can lead to disagreements over the valuation, timing and market conditions of a listing. This can lead to suboptimal IPO strategies, lower valuations, or failed IPO attempts. For mergers and acquisitions, polarization can lead to conflicts in buyer selection, negotiation strategies, and sale conditions. This could lead to longer negotiations, lower sales prices, or even failed M&A deals.

Political polarization can also harm VC syndication. Syndicated investments involve multiple investors pooling their resources to invest in a business. This collaboration helps share risks, pool expertise, and provide greater access to capital. Effective syndication requires close coordination and alignment among investors. Polarization can disrupt this coordination, leading to misaligned efforts, inefficiencies, and potentially conflicting actions. Polarization can erode trust and hinder open communication among syndicate members. Lack of trust and poor communication can result in misunderstandings and reduced collaboration, which are crucial for a successful syndicate.

Investor homogeneity may lead to fewer political opinion conflicts, making it easier for parties to reach agreements and thereby facilitating successful transactions. In times of significant political polarization, a homogeneous group of investors may enhance decision-making stability and reduce the impact of external uncertainties on transactions. Additionally, similar political views can accelerate the decision-making process, improving the efficiency and success rate of exit transactions. Overall, these factors suggest the following hypothesis.

Hypothesis 1: *Politically homogenous preferences improve cooperation and expand VC syndicates, speed up staged rounds, increase round frequency, improve exit success, and enhance IPO valuation.*

On the other hand, VCs are amongst the most sophisticated financial intermediaries in the world. They are experts at screening, due diligence, and providing value-added advice to improve teamwork, achieve innovation success, and optimize investment outcomes. VCs will be aware of potential biases and risks associated with a polarized political climate. They should be able to focus on strong fundamentals, objective assessment of market need, impact, and viability, while remaining adaptable to changing political and societal contexts. And with diverse perspectives, conducting open dialogues, and building relationships with policymakers, they would be able to achieve better outcomes that other intermediaries are unable to achieve in the start-up ecosystem. Only 0.2% of startups in the U.S. obtain VC finance (NVCA, 2014), as VCs pick the best opportunities and grow these deals into large, successful companies. In this perspective, political polarization should have no effect on VC, or even a positive effect, as VCs take advantage of market inefficiencies to profit from the opportunities brought by polarization. Political polarization can lead to the emergence of new market opportunities as companies address social and political issues that gain traction in a polarized environment. This might create niche markets and investment opportunities in sectors that cater to specific political or social perspectives.

In contrast to politically diverse investors, homogeneous investors lack a variety of perspectives and strategies, which may limit innovation and flexibility. Political homogeneity may also result in narrow thinking, leading to a lack of innovative ideas and solutions, making

it more difficult to identify market opportunities and exit timings. Furthermore, a lack of political diversity may hinder the team's ability to respond to market changes and uncertainties, resulting in more singular decision-making and increased risk of failure. Additionally, politically homogeneous investors often have narrower social networks, limiting their access to diverse resources and support, which can affect the smooth exit of projects.

The diversity in political views may enhance adaptability and innovation, which are critical for VC exits, especially in uncertain and dynamic markets. A homogeneous group might miss out on creative solutions or market signals that more diverse groups could spot, making it harder to seize exit opportunities effectively. These perspectives are summarized in the second hypothesis, which is the alternative to Hypothesis 1.

Hypothesis 2: *Politically homogenous preferences shrink VC syndicates, lengthen staged rounds, reduce round frequency, worsen exit success, and worsen IPO valuation.*

3. Data and Research Design

3.1.Data

We sourced our sample from the Pitchbook dataset. Pitchbook, a subsidiary of Morningstar, offers comprehensive data on the private capital market. It provides information on the commitments of limited partners (LPs) for 25,000 alternative asset funds globally. In our analysis of the Pitchbook database which provides information at the deal level from 1990 to 2021, the initial sample consisted of 934,134 observations. After filtering for companies headquartered in the United States, 439,009 deals remained. Next, by matching with the FEC dataset, only those deals with at least one identifiable investor's political party were kept,

resulting in 111,579 observations. Further narrowing the sample to deals with at least two investors yielded a final sample of 78,442 deals. See Table 1.

[Insert Table 1 About Here]

To measure investors' firm political attitudes, we follow Duchin et al (2021), First, we obtain information on individual contributions to political campaigns from Federal Election Commission (FEC)[5]. The Federal Election Commission (FEC) maintains transaction-level records of individual donations organized by election cycle. Next, we classify each donation into Republican or Democratic based on the affiliated party declared by the Political Action Committee (PAC) receiving each donation. Finaly, we utilize the self-reported employer names in each transaction record to match Investor firm name in Pitchbook database. we construct a Democratic Affiliation score for each Investor firm-year, defined as the fraction of donations to Democrat-affiliated committees out of the total number of donations in the past 8 years. The variables in the data are defined and summarized in Appendix A.

Appendix B summarizes the measurement of the political homogeneity of investors. We provide three measures to assess robustness: *PHI1* is the absolute difference between the proportion of Democrat and Republican Party supporters. *PHI2* is the Herfindahl-Hirschman Index of the proportions of Democratic and Republican Party supporters. *PHI3* is the Negative Entropy of the proportions of Democratic and Republican Party supporters.

Table 2 provides descriptive statistics for the sample. On average, there are 9.1 syndicated investors, and 15 months between staged deal rounds. Only 5.5% of deals are successfully

[5] https://www.fec.gov/campaign-finance-data/all-candidates-file-description/

exited as an IPO, while 43.9% are exited as acquisitions.

There are 53.3% of deals in states with constituency statutes, meaning that the deal took place in a state where there is a legal requirement to consider not only shareholder value maximization but also the interest of other stakeholders; these states are identified in Appendix C.

Table 2 Panel B summarizes the data by year, and Table 2 Panel C summarizes the deals by industry. The models below consider industry and fixed-effects, and are robust to excluding different periods by industry or year.

[Insert Table 2 About Here]

Table 3 provides a correlation matrix for the sample. The matrix indicates that political homogeneity is strongly and significantly negatively correlated with venture capital staging, syndication, exit outcomes, and deal numbers, consistent with Hypothesis 2. The matrix does not show that there is a significant reason to be concerned collinearity across the variables included in the model explained in subsection 3.2 below, but different specifications are nevertheless considered as robustness checks.

3.2.Model Specification

We run regressions of the following form:

$$VCoutcome_{i,j,t} = \alpha_0 + \alpha_1 Political\ Homogeneity_{i,j,t} + \sum Controls_{i,j,t} + \sum FE + \varepsilon_{i,j,t} \quad (1)$$

The different VC outcome variables include staging, syndication, exits (IPO or acquisitions), and deal levels. The subscripts *i, j,* and *t* represent the invested company, the deal transaction and year respectively. We define three exit outcomes, including Successful exit,

IPO, and M&A. FE includes fixed effects of the industry in which the invested enterprise is located and fixed effects of the year and time of the transaction. If the coefficient α_1 is significantly positive (negative) then investor political homogeneity is positively associated with higher success rates in VC exits, supporting Hypothesis 1 (Hypothesis 2).

Our empirical tests are based on the idea that political identity is exogenous. Political identity in the U.S. is shaped by partisan attachments, social identities, and personal experiences (Westwood et al., 2018). Westwood et al. document that political identity leads people to discriminate against their political opponents to a more pronounced degree than discrimination based on religion, language, ethnicity, or regional location. As such, political affiliation takes precedence in shaping political behavior and attitudes. We do not think it is reasonable to think that a venture capital deal, or the presence of syndicated partners, will cause changes in a person's political affiliation in the U.S.

As a robustness check, we consider differences in the extent to which a group might be faced with possible partisan conflict. We examine within groups of high versus low partisan conflict whether political homogeneity has a differential impact on VC deals.

We consider a wide array of control variables. We consider constituency statutes, or stakeholder governance (not merely shareholder profit maximization), which vary across states and over time (Appendix C). Constituency statutes could affect VC deal monitoring, syndication, exits, and deal numbers, as well as the impact of political homogeneity on these VC outcomes. We control for economic connectedness (Chetty et al., 2022), as defined in Table 1. Investor groupings are not merely defined by their political homogeneity, but a wide array of other characteristics, which are captured and controlled for in our economic

connectedness measure.

We consider whether angel investors were present in the VC syndicate, as well as various entrepreneurial firm characteristics, deal characteristics, and VC fund characteristics. We control for state, industry, and years with the use of fixed effects.

4. Empirical Tests

The regression evidence is presented in Tables 4 – 10. The regressions, presented in subsection 4.1., test Hypotheses 1 and 2 by providing evidence of the effect of political homogeneity on VC syndication, staging, exits, and deal numbers in Tables 4 – 8. Thereafter, in Tables 9 and 10, we present additional robustness checks discussed in subsection 4.2. Limitations and extensions are discussed in subsection 4.3.

4.1. Tests of Hypotheses 1 versus 2

Table 4 presents evidence on VC syndication. Panel A presents regressions for the probability that the number of syndicated investors is above the average level, while Panel B presents regressions for the total number of syndicated investors. The regressions in Panel A indicate that a 1 standard deviation increase in political homogeneity is associated with a 19.7% (Model 4) to 23.1% (both Models 5 and 6) reduction in the probability that the number of syndicated investors is greater than the median, and each of these estimates is statistically significant at the 1% level. Models 1-3 in Panel A show a similar statistical significance, with an even higher economic significance when various control variables are dropped from the models. Panel B shows that a 1 standard deviation increase in political homogeneity is associated with a 5.2% (Model 4) to 6.1% (Models 5 and 6) reduction in the number of

syndicated investors, or roughly a reduction by slightly more than 1 syndicated investor per investee on average. Overall, this evidence supports Hypothesis 2, not Hypothesis 1.

The control variables in Table 4 show evidence consistent with other work on VC syndication, as well as some new insights. There are more syndicated investors when they are more economically connected, which is expected since there is greater ease and incentives for these investors to work together. There are fewer syndicated investors in the presence of constituency statutes, which suggests that constituency statutes make it harder for a group of investors to work together due to a myriad of objectives, and not merely profit maximization. Larger deals, deals involving angel investors, and deals with CEOs with longer bios have more syndicated investors. Deals with larger investee firms with more employees involve fewer syndicated investors.

[Insert Table 4 About Here]

Table 5 presents regression evidence on the impact of political homogeneity on the length of time between staged VC deals.[6] The data indicate that a 1 standard deviation increase in homogeneity is associated with roughly a 1-month increase in duration across deal rounds, and this effect is statistically significant at the 1% level in all 6 regression models. We might have expected the opposite result if political heterogeneity harmed information flow, trust, and the

[6] Table 5 regressions are standard OLS regressions. As a robustness check, we considered Cox hazard regressions and found similar evidence to what is presented in Table 5. Those alternative specifications are available in Online Appendix OA1. The coefficient on PHI is -0.047 ($p < 0.01$), with a corresponding hazard ratio of 0.955. This implies that a one-standard-deviation increase in local political homogeneity reduces the hazard of transitioning to the next round of financing by approximately 4.5%, indicating a statistically significant lengthening of the inter-deal interval. This result is robust to the inclusion of firm characteristics, CEO ability, and local economic connections. Other controls behave as expected—for instance, larger deal size is associated with slower subsequent funding, while higher CEO ability accelerates fundraising.

ability to make timely decisions (Hypothesis 1). Instead, all else being equal, a politically homogenous group of investors is slower to decide to bring about another staged investment round. And this effect is not explained by the presence of more investors when they are politically homogenous (Table 4). The delay in the investment round is observed regardless of the need for more active monitoring of the investee company (Gompers and Lerner, 2003), but instead merely by the presence of investor political homogeneity. It indicates investors who are overly similar are slower to gather information and make decisions, consistent with Hypothesis 2.

The control variables in Table 5 show evidence that is consistent with other work on VC staging. Larger deals and larger companies with more employees have longer staged rounds, since these companies need less active monitoring (Gompers and Lerner, 2003). Deals involving angel investors involve shorter staged rounds, since those deals tend to be at earlier stages and need more active monitoring.

[Insert Table 5 About Here]

Table 6 considers the total number of staged rounds. The data indicate that a 1 standard deviation increase in political homogeneity reduces total staged rounds by 4.0% (Model 4) to 5.0% (Models 5 and 6), and these effects are significant at the 1% level in all specifications. Simply put, political homogeneity is associated with less intensive monitoring through less frequent staging (Gompers and Lerner, 2003; Hogrebe and Lutz, 2024), consistent with Hypothesis 2.

The control variables in Table 6 also offer some interesting insights. Perhaps most notably,

funds that pursue deals with economic connectedness similarly have fewer total rounds similar to Johan and Wilkinson (2024), consistent with the impact of political homogeneity. Also, the data indicate that funds invest more rounds when they have opportunities with better CEOs, large companies, and opportunities to invest with angel investors.

[Insert Table 6 About Here]

Tables 7, 8, and 9 present regression evidence on deal outcomes.[7] Table 7 considers regressions with IPOs and acquisitions together as successful exits, while Table 8 considers the likelihood of IPOs and acquisitions separately. The data in Table 7 indicate that a 1 standard deviation increase in homogeneity reduces successful exit outcomes by 6.9% (Model 4) to 8.1% (Model 6). In Table 8, a 1 standard deviation increase in homogeneity reduces successful acquisition exit outcomes by 5.6% (Model 1) to 6.8% (Model 3), and a 1 standard deviation increase in homogeneity reduces the probability of an IPO outcomes by 6.0% (Model 4) to 7.0% (Model 6). These effects are statistically significant at the 1% level in each of the models in Tables 7 and 8. Overall, the evidence supports Hypothesis 2.

The control variables in Tables 7 and 8 are consistent with other evidence on VC exit outcomes. Deals involving angel investors have worse exits, consistent with Cumming and

[7] As robustness checks, we considered possible truncation bias for more recent deals that have not yet been exited. We ran two-step regressions on the probability of any exit in the first stage, and which exit in the second stage. We also considered dropping funds and investees from the sample that were part of the more recent years in the data. The results were not materially different. We provide some evidence in Online Appendix OA2. We exclude all deals made in or after 2015 and re-estimate the logit regressions using Success_exit as the dependent variable. The results remain qualitatively similar, suggesting that our findings are not driven by incomplete exit outcomes among more recent investments. The reason why we choose to exclude samples from 2016 and later in the robustness test is that according to the sample distribution in Panel B, financing events after 2016 account for nearly 50% of the whole sample, and there may be a truncation problem at the right end that the next round of financing has not been completed, thus affecting the estimation accuracy of the main results.

Zhang (2019). Deals involving more economically connected investors have better exits, consistent with Johan and Wilkinson (2024). Deals with stronger CEOs have better exits.

Table 9 presents regression evidence for IPO valuation. The data indicate a 1 standard deviation increase in politically homogenous investors reduces IPO valuation by 0.7% (Model 4) to 0.9% (Model 6) relative to the average IPO valuation in the data, and these effects are statistically significant at the 1% level. These effects are not as economically large as those in Tables 7 and 8 for the probability of successful exits, but do indicate that among those that are successfully exited, they tend to be valued lower, consistent with Hypothesis 2.

The control variables in Table 9 also show similar statistical significance compared to the Tables 7 and 8, in respect of economic connectedness and CEO ability. One difference, however, is that successfully exited IPO deals with angel investors in the VC syndicate tend to be valued higher, despite a lower probability of those deals being exited as an IPO. The data show greater heterogeneity amongst the VC-angel syndicates in terms of outcomes, and future research could examine the reasons why in greater detail.

[Insert Tables 7-9 About Here]

4.2. Robustness Checks

In this subsection, we show two robustness checks. Table 10 shows the impact of high versus low partisan conflicts (Azzimonti, 2018; see Appendix A for the definition). The data indicate that impact of political homogeneity is statistically significant in the presence of high partisan conflict for the duration of staged round (Panel A) and not otherwise significant. In Panel B, political homogeneity causes worse exit outcomes in a more statistically and

economically significant way in the presence of high partisan conflict. And in Panel C, the total number of investment rounds is significantly affected by political homogeneity, regardless of high versus low partisan conflict, but the economic significance is more pronounced in the presence of high partisan conflict. Taken together, this evidence further supports Hypothesis 2. VC decisions and outcomes are worsened by political homogeneity, and this negative effect is exacerbated in the presence of high partisan conflict.

[Insert Table 9 About Here]

4.3. Additional Robustness Checks, Limitations and Extensions

In footnotes 6 and 7 and Online Appendices OA1 and OA2, we documented several robustness checks. Other variables could be considered in the PitchBook dataset, as well as other political variables. In other specifications, available on request, we considered the impact of using different industry fixed effects. The results are not materially different when we use other specifications involving different industry fixed effect variables. See online Appendix OA3.

Further work could consider matching processes between different VCs and their investees in more detail if other data and variables become available. Our empirical tests considered political identity as exogenous to venture capital deals, consistent with other work showing political affiliation in the U.S. partisan attachments and social identities (Westwood et al., 2018). Interestingly, Westwood et al. document that political identity in the U.S. is so strong that it causes more discrimination than that based on religion, language, ethnicity, or regional location; the strength of political identity is consistent with our treating it as exogenous here.

Nevertheless, as a robustness check, we considered how differences in how possible partisan conflicts could affect outcomes, and found some notable influences. Further research could examine these issues in more detail.

Future research could likewise examine the impact of political polarization on the VC and startup ecosystems, and the impact on total deal numbers. There are several reasons to expect significant findings based on our results here. First, increased political polarization can lead to policy instability and uncertainty, making it difficult for investors to predict future economic conditions and regulatory landscapes. This uncertainty can translate into hesitancy in making long-term investments, potentially slowing down the pace of VC funding and impacting startups' growth trajectories. Second, political polarization can affect legislative decisions related to taxation, trade, technology, and other policies critical to startups. Changes or uncertainty in these policies can directly impact a startup's financial planning, investment decisions, and even market access. Third, individual investors and VCs might be influenced by their political views when making investment decisions. If so, it can create a bias in favor of or against certain types of startups or industries perceived as aligned with a specific political ideology, potentially impacting funding opportunities based on non-financial criteria (Hao et al., 2024). Fourth, a politically polarized environment can lead to a skewed funding ecosystem where political connections might play a bigger role than business viability, potentially stifling innovation and diversity. Such a situation can erode investor confidence, discourage international investment, and slow down overall growth in the sector. As such, future research on these and related questions is warranted, among other extensions to our evidence presented here.

5. Conclusion

This paper presented evidence consistent with the view that in the VC context, investor political homogeneity causes narrow thinking, diminishing innovative ideas, and worsening due diligence, value-added, and exit outcomes. Preferences for political homogeneity also cause investors to consider fewer investment opportunities.

In contrast to politically diverse investors, homogeneous investors lack a variety of perspectives and strategies, which may limit innovation and flexibility. Political homogeneity may also result in narrow thinking, leading to a lack of innovative ideas and solutions, making it more difficult to identify market opportunities and exit timings. Furthermore, a lack of political diversity may hinder the team's ability to respond to market changes and uncertainties, resulting in more singular decision-making and an increased risk of failure. Additionally, politically homogeneous investors often have narrower social networks, limiting their access to diverse resources and support, which can affect the smooth exit of projects.

The diversity in political views enhances adaptability and innovation, which are critical for VC exits, especially in uncertain and dynamic markets. The evidence here shows that a homogeneous group might miss out on creative solutions or market signals that more diverse groups could spot, making it harder to seize exit opportunities effectively.

The findings in this paper are based on U.S. data. Whether these results are applicable to other countries and international deals (Balachandran and Hernandez, 2021) are matters to be considered in other studies. Also, as the U.S. political and social landscape evolves, there could be changes to findings presented here in future time periods. We considered 1990-2021, and found the results to be fairly stable over time and over different election cycles. But an

examination of specific cases or funds or regions within could show more nuanced findings. Similarly, more work is needed on the economic consequences and real effects of venture capital and private equity (Feldman and Kenney, 2024), and the potentially exacerbated roles that polarization has played in affecting these outcomes. We hope our look at political polarization and VC will lead to more studies investigating links in the data, and to the development of additional datasets.

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Appendix A: Variable definition

Variables Name	Description
Dependence Variables	
Deal-Level	
lndeal_investors	The total number of investors participating in a specific investment deal at the deal level, reflecting the overall scale of syndication.
lndeal_investors_dummy	A dummy variable equals one if the number of investors in a given deal is greater than or equal to the sample median, and zero otherwise. It serves as a binary measure of syndication intensity.
lndeal_interval	The natural logarithm of the number of months between the current deal date and the previous deal date.
lnpostvaluation	The natural logarithm of firm-level valuation (in M$) for the investee companies at the time of deal completed
Firm-level	
Successful exit	A dummy variable equal to 1 for either IPO or acquisition exit
Successful exit IPO	A dummy variable equal to 1 for an IPO exit
Successful exit M&A	A dummy variable equal to 1 for an acquisition exit
total_deals	The firm-level total number of deals has been made over the whole sample period for the investee companies
Interest Variables	
PHI1	Political Homogeneity Index 1, defined as the absolute difference between the proportions of Democratic and Republican Party supporters. The formula is $\|p_dem - p_rep\|$
PHI2	Political Homogeneity Index 2, defined as the Herfindahl-Hirschman Index of the proportions of Democratic and Republican Party supporters. The formula is $(p_dem^2) + (p_rep^2)$
PHI3	Political Homogeneity Index 3, defined as the Negative Entropy of the proportions of Democratic and Republican Party supporters. The formula is $-1 * -((p_dem * ln(p_dem + 1)) + (p_rep * ln(p_rep + 1)))$
Controls	
economic_conn	Economic Connectedness is defined as 10−Avg(three Distance Ranks), so that a higher Economic Connectedness represents stronger economic connectedness, reflecting lower overall dispersion in location, age, and investment size among the investor firms. Inspired by Chetty et al. (2022), we first calculating three types of distance metrics: Location Distance, Age Distance, and Investment Distance. *Location Distance* is defined as the ratio of the number of unique locations to the number of investors, where a higher value

	indicates that investors are more geographically dispersed, and a lower value indicates greater geographic concentration. *Age Distance* is measured as the standard deviation of the ages of the investors, with a higher standard deviation indicating more age diversity. *Investment Distance* is defined as the standard deviation of the total investment sizes among investors, where a higher standard deviation suggests greater variation in investment size. Each of these distance metrics is then ranked into deciles, from 1 (lowest distance) to 10 (highest distance).
constituency	A dummy variable equal to 1 for states which have adopted constituency statutes after the adoption year.
lndealsize	The natural logarithm of firm-level deal size (in M$) for the investee companies
Angel	The number of angel investors participating in a given VC deal. This variable captures the count of distinct angel investors involved in each financing round.
dealsno	The deal-level total number of deals has been made.
deal_per_year	The firm-level number of deals has been made in a year for the investee companies
lnemployees	The natural logarithm of firm-level number of employees in the investee companies
ceo_ability	The total word count of the CEO's biography, where a higher value indicates greater managerial experience or professional exposure.
Other Variables	
Partisan Conflict Index (PCI)	This index, developed by Azzimonti (2018), captures the intensity of political disagreement between U.S. parties on a monthly basis. It is constructed from the frequency of newspaper articles mentioning political conflict and policy uncertainty across ten major U.S. newspapers, including The Wall Street Journal and The New York Times. A higher PCI indicates greater partisan polarization. In our analysis, we use the quarterly average of PCI to proxy for the level of macro-level political uncertainty.

Appendix B: The Measurement of Political Homogeneity of Investors

In March 2010, a company was engaged in a significant merger transaction involving a mix of different political affiliations among its investors. In this diverse investor pool, there were 5 investors supporting the Democratic Party (*Investor_Dem*), 6 supporting the Republican Party (*Investor_Rep*), and 9 investors whose political affiliations were undetermined (*Investor_Unk*), bringing the total to 20 individuals (*Total_investor*). To further analyze the political landscape within the company's investor base, we define the proportions of party supporters, specifically the Democratic supporter ratio *p_dem* and the Republican supporter ratio *p_rep*.

Proportion of Democratic Party Supporters *(p_dem)*: is the proportion of Democratic Party supporters within the total investor population. It is calculated by dividing the number of Investor_Dem by the Total_investor:

$$p_dem = Investor_Dem / Total_investor$$

Proportion of Republican Party Supporters Similarly *(p_rep)*: is the proportion of Republican Party supporters within the total investor population. It is calculated by dividing the number of Investor_Rep by the Total_investor:

$$p_rep = Investor_Rep / Total_investor$$

These metrics provide a clearer picture of the political polarization among the company's investors, allowing for an assessment of the balance or skew in political affiliations within the investor community.

Measure #1: Political Homogeneity Index (PHI1)

$$\text{Political Homogeneity Index 1} = |p_dem - p_rep|$$

Explanation: This measure calculates the absolute difference between the proportions of Democratic and Republican Party supporters. A higher PDI value indicates a greater difference in party support, suggesting a more homogeneous and concentrated party composition with more consistent political opinions.

Measure #2: Herfindahl-Hirschman Index (PHI2)

$$\text{Political Homogeneity Index 2} = (p_dem^2) + (p_rep^2)$$

Explanation: This measure quantifies the concentration of party support. A higher PHHI value indicates a more monopolistic party structure, where one party dominates. It reflects a higher concentration of political opinions within the investor base.

Measure #3: The Negative Entropy (PHI3)

$$\text{Political Homogeneity Index 3} = -1 * \text{Political Entropy}$$
$$= -1 * [-(p_dem * \ln(p_dem + 1)) + (p_rep * \ln(p_rep + 1))]$$

Explanation: Entropy is a concept from information theory that measures the uncertainty or randomness of a system. In the context of political Homogeneity, entropy can be used to gauge how evenly distributed the political affiliations are among investors. In here, by taking the negative, A lower Political Homogeneity Index (PHI) indicates a greater concentration of political affiliations, meaning that fewer diverse political views are present among the investors. This suggests that the political landscape is less varied and more uniform, leading to a stronger alignment in political beliefs and potentially reducing the likelihood of conflict.

Appendix C: Constituency Statutes

State	State Code	Year
Arizona	AZ	1987
Connecticut	CT	1997
Florida	FL	1989
Georgia	GA	1989
Hawaii	HI	1989
Idaho	ID	1988
Illinois	IL	1985
Indiana	IN	1989
Iowa	IA	1989
Kentucky	KY	1989
Louisiana	LA	1988
Maine	ME	1986
Maryland	MD	1999
Massachusetts	MA	1989
Minnesota	MN	1987
Mississippi	MS	1990
Missouri	MO	1989
Nebraska	NE	1988-1995, 2007
Nevada	NV	1991
New Jersey	NJ	1989
New Mexico	NM	1987
New York	NY	1987
North Carolina	NC	1993
North Dakota	ND	1993
Ohio	OH	1984
Oregon	OR	1989
Pennsylvania	PA	1990
Rhode Island	RI	1990
South Dakota	SD	1990
Tennessee	TN	1988
Texas	TX	2006
Vermont	VT	1998
Virginia	VA	1989
Wisconsin	WI	1987
Wyoming	WY	1990

Notes: Information is based on both Barzuza (2009) and Flammer and Kacperczyk (2016)This table lists the states and the year, in the United States, which have adopted Constituency Statutes. Purpose: To give corporate directors the flexibility to consider broader social and economic impacts when making decisions. Impact: Directors are not legally required to prioritize shareholder profit over other considerations, potentially leading to more socially responsible corporate behavior.

Table 1: Sample Selection

Procedures	**#Obs.**
(1) Initial Sample from Pitchbook deal-level database 1981-2021	1,076,122
(2) Keep the company's headquarters in the United States	499,580
(3) Match FEC dataset and keep the deals that involve at least two investors and at least one investor political party can be identified.	140,005
(4) Keep sample with necessary variables in deals level	103,445
Final Sample	103,445

Notes: The final sample consists of 46,342 entrepreneurial companies from the period of 1981-2022

Table 2: Descriptive statistics

Panel A: Key variables

Variable	N	Mean	SD	Min	p25	p50	p75	Max
lndeal_invesetors	103,445	2.213	0.732	1.099	1.609	2.197	2.708	5.416
lndeal_interval	103,445	2.711	1.022	0.000	2.079	2.773	3.367	5.130
lnpostvaluation	93,441	3.967	1.244	0.001	3.561	3.725	4.365	12.014
Successful_exit	103,445	0.495	0.500	0.000	0.000	0.000	1.000	1.000
Successful_exit_MA	103,445	0.439	0.496	0.000	0.000	0.000	1.000	1.000
Successful_exit_IPO	103,445	0.055	0.229	0.000	0.000	0.000	0.000	1.000
total_deals	103,445	6.550	3.787	2.000	4.000	6.000	8.000	46.000
PHI1	103,445	0.727	0.381	0.000	0.333	1.000	1.000	1.000
PHI2	103,445	0.837	0.217	0.500	0.556	1.000	1.000	1.000
PHI3	103,445	0.599	0.125	0.405	0.436	0.693	0.693	0.693
economic_conn	103,445	2.658	1.972	0.000	1.111	2.533	4.000	9.000
constituency	103,445	0.533	0.499	0.000	0.000	1.000	1.000	1.000
lndealsize	94,255	2.514	1.637	0.000	1.569	2.153	3.199	12.014
Angel	103,445	0.653	1.005	0.000	0.000	0.000	1.000	9.000
dealno	103,445	6.550	3.787	2.000	4.000	6.000	8.000	46.000
deal_per_year	103,445	1.291	0.609	1.000	1.000	1.000	1.000	10.000
lnemployees	98,753	4.307	1.760	0.693	3.045	4.126	5.278	14.648
ceo_ability	103,445	5.938	1.675	0.000	5.403	6.433	6.994	9.241

Panel B: The sample distribution by year

Year Period	Freq.	Percent	Cum.
1980-1984	24	0.02	0.02
1985-1989	109	0.11	0.13
1990-1994	230	0.22	0.35
1995-1999	2,062	1.99	2.34
2000-2004	7,398	7.15	9.5
2005-2009	12,420	12.01	21.5
2010-2014	22,488	21.74	43.24
2015-2019	39,974	38.64	81.88
2020-2021	18,740	18.12	100
Total	103,445	100	

Panel C: The sample distribution by industry Sector

Industry Sector	Freq.	Percent	Cum.
Business Products and Services (B2B)	17,684	17.10	17.10
Consumer Products and Services (B2C)	16,664	16.11	33.20
Energy	3,643	3.52	36.73
Financial Services	3,387	3.27	40.00
Healthcare	19,336	18.69	58.69
Information Technology	40,820	39.46	98.15
Materials and Resources	1,911	1.85	100.00
Total	103,445	100	

Table 3: Pearson Correlation Matrix

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)
(1) *lndeal_invesetors*	1.000																
(2) *lndeal_interval*	***-0.144***	1.000															
(3) *Successful_exit*	***-0.028***	***0.195***	1.000														
(4) *Successful_exit_MA*	***-0.086***	***0.215***	***0.895***	1.000													
(5) *Successful_exit_IPO*	***0.123***	***-0.041***	***0.245***	***-0.214***	1.000												
(6) *total_deals*	***0.419***	***-0.222***	***-0.026***	***-0.169***	***0.309***	1.000											
(7) *PHI1*	***-0.380***	***0.051***	***0.010***	***0.035***	***-0.055***	***-0.121***	1.000										
(8) *PHI2*	***-0.434***	***0.058***	***0.009***	***0.038***	***-0.063***	***-0.144***	***0.982***	1.000									
(9) *PHI3*	***-0.435***	***0.059***	***0.009***	***0.038***	***-0.063***	***-0.145***	***0.981***	***0.998***	1.000								
(10) *economic_conn*	***0.442***	***0.033***	***0.106***	***0.084***	***0.050***	***0.096***	***-0.161***	***-0.186***	***-0.186***	1.000							
(11) *constituency*	***-0.161***	***0.057***	0.000	-0.002	0.005	0.000	***0.097***	***0.108***	***0.108***	***-0.123***	1.000						
(12) *lndealsize*	***0.135***	***0.217***	***0.268***	***0.193***	***0.163***	***0.096***	***-0.073***	***-0.084***	***-0.084***	***0.127***	-0.002	1.000					
(13) *Angel*	***0.536***	***-0.127***	***-0.114***	***-0.116***	0.002	***0.170***	***-0.226***	***-0.255***	***-0.255***	***0.125***	***-0.100***	***-0.082***	1.000				
(14) *dealno*	***0.513***	***-0.173***	***0.008***	***-0.075***	***0.181***	***0.706***	***-0.158***	***-0.185***	***-0.186***	***-0.013***	***0.017***	***0.180***	***0.210***	1.000			
(15) *deal_per_year*	***0.051***	***-0.485***	***-0.143***	***-0.161***	***0.039***	***0.193***	***-0.019***	***-0.018***	***-0.018***	***-0.126***	***-0.021***	***-0.190***	***0.058***	***0.089***	1.000		
(16) *lnemployees*	***0.111***	***0.153***	***0.221***	***0.097***	***0.267***	***0.306***	***-0.055***	***-0.065***	***-0.066***	***0.156***	***0.025***	***0.531***	***-0.061***	***0.197***	***-0.124***	1.000	
(17) *lnpostvaluation*	***0.193***	***0.094***	***0.114***	***0.043***	***0.151***	***0.148***	***-0.083***	***-0.096***	***-0.096***	***0.083***	***-0.011***	***0.744***	***0.009***	***0.225***	***-0.072***	***0.433***	1.000
(18) *ceo_ability*	***0.175***	***-0.074***	***-0.055***	***-0.097***	***0.090***	***0.204***	***-0.049***	***-0.059***	***-0.059***	***0.085***	***-0.012***	***0.032***	***0.089***	***0.161***	***0.020***	***0.054***	***0.059***

Notes: This table reports the Pearson correlations of the main test variables and control variables. ***Bold*** indicates that the correlation is significant at the 10% level or below. All of these variables are defined in Appendix A.

Table 4: The effects of political homogeneity on syndication

Panel A: the syndication intensity

	(1)	(2)	(3)	(4)	(5)	(6)
Dep.Var=			***lndeal_investors_dummy***			
PHI1	-1.685***			-1.144***		
	(-87.694)			(-46.517)		
PHI2		-3.428***			-2.350***	
		(-101.217)			(-53.761)	
PHI3			-5.961***			-4.087***
			(-101.502)			(-53.909)
economic_conn				0.544***	0.539***	0.539***
				(97.396)	(96.112)	(96.082)
constituency				-0.328***	-0.321***	-0.321***
				(-3.273)	(-3.176)	(-3.174)
lndealsize				0.083***	0.079***	0.079***
				(11.274)	(10.765)	(10.753)
Angel				1.363***	1.347***	1.347***
				(88.254)	(86.885)	(86.855)
dealno				0.541***	0.538***	0.537***
				(97.531)	(96.447)	(96.420)
lnemployees				-0.038***	-0.039***	-0.039***
				(-5.495)	(-5.696)	(-5.701)
ceo_ability				0.041***	0.042***	0.042***
				(6.697)	(6.736)	(6.737)
Constant	-1.836	0.009	0.715	-5.181**	-3.860*	-3.375
	(-1.295)	(-0.080)	(0.384)	(-2.246)	(-1.669)	(-1.457)
State FE	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
N	103,440	103,440	103,440	92,660	92,660	92,660
Pseudo R^2	0.141	0.161	0.161	0.422	0.428	0.428

Panel B: the total number of syndicated partners

	(1)	(2)	(3)	(4)	(5)	(6)
Dep.Var=			***lndeal_investors***			
PHI1	-0.641***			-0.301***		
	(-70.428)			(-47.246)		
PHI2		-1.301***			-0.616***	
		(-82.585)			(-54.271)	
PHI3			-2.262***			-1.072***
			(-82.862)			(-54.421)
economic_conn				0.135***	0.133***	0.132***
				(104.998)	(103.545)	(103.513)
constituency				-0.087***	-0.085***	-0.085***
				(-3.856)	(-3.811)	(-3.810)
lndealsize				0.023***	0.022***	0.022***
				(15.625)	(15.059)	(15.046)
Angel				0.240***	0.235***	0.235***
				(66.525)	(65.812)	(65.799)
dealno				0.103***	0.101***	0.101***
				(57.807)	(57.504)	(57.502)
deal_per_year				0.035***	0.035***	0.035***
				(7.676)	(7.770)	(7.774)
lnemployees				-0.001	-0.002	-0.002

				(-0.795)	(-0.992)	(-0.997)
ceo_ability				0.008***	0.008***	0.008***
				(5.983)	(6.037)	(6.039)
Constant	2.680***	3.302***	3.568***	1.388***	1.706***	1.833***
	(322.620)	(228.366)	(203.283)	(65.125)	(72.607)	(73.750)
State FE	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
N	103,445	103,445	103,445	92,660	92,660	92,660
Adj. R^2	0.239	0.274	0.275	0.647	0.655	0.655

Notes: This table reports the logit/OLS regression results of the effects of political homogeneity on syndication . *lndeal_investors_dummy* is a dummy variable equals one if the number of investors in a given deal is greater than or equal to the sample median, and zero otherwise. It serves as a binary measure of syndication intensity. *lndeal_investors* is the total count of investors participating in a specific investment deal at the deal level, reflecting the overall scale of syndication. The definition of all variables is presented in Appendix A. Year, industry and state fixed effects are included in all models. T-statistics are reported in parentheses. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

Table 5: The effects of political homogeneity on the inter-round deal interval

	(1)	(2)	(3)	(4)	(5)	(6)
Dep.Var=			***lndeal_interval***			
PHI1	0.068***			0.018**		
	(7.242)			(2.300)		
PHI2		0.142***			0.038***	
		(8.577)			(2.696)	
PHI3			0.247***			0.066***
			(8.601)			(2.701)
economic_conn				-0.008***	-0.008***	-0.008***
				(-4.958)	(-4.816)	(-4.813)
constituency				0.001	0.001	0.001
				(0.039)	(0.035)	(0.035)
lndealsize				0.079***	0.079***	0.079***
				(33.315)	(33.316)	(33.316)
Angel				-0.020***	-0.020***	-0.020***
				(-6.322)	(-6.176)	(-6.173)
dealno				-0.050***	-0.050***	-0.050***
				(-23.795)	(-23.617)	(-23.612)
deal_per_year				-0.691***	-0.691***	-0.691***
				(-43.191)	(-43.210)	(-43.211)
lnemployees				0.028***	0.028***	0.028***
				(12.338)	(12.349)	(12.349)
ceo_ability				-0.006***	-0.006***	-0.006***
				(-2.818)	(-2.817)	(-2.817)
Constant	2.661***	2.592***	2.563***	3.508***	3.487***	3.479***
	(336.249)	(179.277)	(144.738)	(88.827)	(81.196)	(77.942)
State FE	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
N	103,445	103,445	103,445	92,660	92,660	92,660
Adj. R2	0.047	0.047	0.047	0.279	0.279	0.279

Notes: This table reports the OLS regression results of the effect of political homogeneity on the inter-round deal interval. The definition of all variables is presented in Appendix A. Year, industry and state fixed effects are included in all models. T-statistics are reported in parentheses. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

Table 6: The effects of political homogeneity on the total number of financing rounds

	(1)	(2)	(3)	(4)	(5)	(6)
Dep.Var=			***total_deals***			
PHI1	-1.205***			-0.691***		
	(-32.472)			(-17.958)		
PHI2		-2.549***			-1.514***	
		(-38.359)			(-21.930)	
PHI3			-4.436***			-2.638***
			(-38.493)			(-22.027)
economic_conn				-0.026***	-0.035***	-0.035***
				(-3.339)	(-4.470)	(-4.499)
constituency				0.176	0.178	0.178
				(1.105)	(1.117)	(1.117)
lndealsize				-0.013	-0.017	-0.017
				(-1.074)	(-1.421)	(-1.430)
Angel				0.550***	0.531***	0.530***
				(31.456)	(30.157)	(30.124)
lnemployees				0.395***	0.389***	0.389***
				(9.154)	(8.986)	(8.983)
ceo_ability				0.623***	0.621***	0.621***
				(47.605)	(47.550)	(47.549)
Constant				0.204***	0.204***	0.204***
				(22.817)	(22.830)	(22.830)
State FE	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
N	46,192	46,192	46,192	37,784	37,784	37,784
Adj. R^2	0.091	0.100	0.101	0.232	0.236	0.236

Notes: This table reports on the OLS regression results of the effect of political homogeneity on the total number of financing rounds. The definition of all variables is presented in Appendix A. Year and industry fixed effects are included in all models. T-statistics are reported in parentheses. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

Table 7: The effects of political homogeneity on the capital exit outcome

	(1)	(2)	(3)	(4)	(5)	(6)
Dep.Var=			***Successful_exit***			
PHI1	-0.103***			-0.181***		
	(-3.784)			(-5.325)		
PHI2		-0.202***			-0.371***	
		(-4.171)			(-6.119)	
PHI3			-0.351***			-0.645***
			(-4.185)			(-6.140)
economic_conn				-0.110***	-0.112***	-0.112***
				(-15.058)	(-15.251)	(-15.257)
constituency				0.360*	0.361*	0.361*
				(1.910)	(1.912)	(1.912)
lndealsize				0.495***	0.494***	0.494***
				(50.043)	(49.951)	(49.948)
Angel				-0.121***	-0.124***	-0.125***
				(-8.961)	(-9.180)	(-9.185)
total_deals				0.002	0.001	0.001
				(0.388)	(0.181)	(0.176)
lnemployees				0.062***	0.062***	0.062***
				(6.622)	(6.624)	(6.624)
ceo_ability				-0.022***	-0.022**	-0.022**
				(-2.584)	(-2.567)	(-2.566)
Constant	-0.122	-0.022	0.019	-1.015	-0.809	-0.732
	(-0.145)	(-0.026)	(0.023)	(-0.947)	(-0.754)	(-0.682)
State FE	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
N	46,174	46,174	46,174	37,777	37,777	37,777
Pseudo-R^2	0.120	0.120	0.120	0.234	0.234	0.234

Notes: This table reports the logit regression results of the effect of political homogeneity on the capital exit outcome. The definition of all variables is presented in Appendix A. Year and industry fixed effects are included in all models. T-statistics are reported in parentheses. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

Table 8: The effects of political homogeneity on the types of investment exit outcome

	(1)	(2)	(3)	(4)	(5)	(6)
Dep.Var=	***Successful_exit_MA***			***Successful_exit_IPO***		
PHI1	-0.148***			-0.158**		
	(-4.337)			(-2.050)		
PHI2		-0.313***			-0.321**	
		(-5.122)			(-2.332)	
PHI3			-0.545***			-0.557**
			(-5.143)			(-2.338)
economic_conn	-0.111***	-0.113***	-0.113***	0.064***	0.063***	0.062***
	(-15.060)	(-15.229)	(-15.234)	(3.586)	(3.476)	(3.474)
constituency	0.383**	0.383**	0.383**	-0.194	-0.194	-0.194
	(2.093)	(2.095)	(2.095)	(-0.438)	(-0.439)	(-0.439)
lndealsize	0.515***	0.514***	0.514***	-0.126***	-0.127***	-0.127***
	(52.994)	(52.917)	(52.914)	(-8.118)	(-8.147)	(-8.148)
Angel	-0.067***	-0.070***	-0.070***	-0.214***	-0.217***	-0.217***
	(-4.785)	(-4.999)	(-5.004)	(-6.385)	(-6.442)	(-6.443)
total_deals	-0.068***	-0.069***	-0.069***	0.158***	0.157***	0.157***
	(-14.006)	(-14.157)	(-14.161)	(21.138)	(20.954)	(20.949)
lnemployees	-0.103***	-0.103***	-0.103***	0.647***	0.647***	0.647***
	(-10.646)	(-10.645)	(-10.645)	(33.541)	(33.549)	(33.549)
ceo_ability	-0.041***	-0.041***	-0.041***	0.160***	0.160***	0.160***
	(-4.809)	(-4.794)	(-4.793)	(6.659)	(6.663)	(6.663)
Constant	-0.364	-0.184	-0.119	-7.525***	-7.350***	-7.284***
	(-0.366)	(-0.185)	(-0.119)	(-5.565)	(-5.414)	(-5.352)
State FE	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
N	37,775	37,775	37,775	37,515	37,515	37,515
Pseudo-R2	0.232	0.232	0.232	0.334	0.334	0.334

Notes: This table reports the logit regression results of the effect of political homogeneity on investment exit outcome. The definition of all variables is presented in Appendix A. Year and industry fixed effects are included in all models. T-statistics are reported in parentheses. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

Table 9: The effects of political homogeneity on the post-investment valuation

	(1)	(2)	(3)	(4)	(5)	(6)
Dep.Var=			***lnpostvaluation***			
PHI1	-0.243***			-0.076***		
	(-17.009)			(-6.790)		
PHI2		-0.502***			-0.161***	
		(-20.033)			(-8.120)	
PHI3			-0.873***			-0.279***
			(-20.111)			(-8.154)
economic_conn				0.018***	0.017***	0.017***
				(8.352)	(7.992)	(7.982)
constituency				-0.022	-0.021	-0.021
				(-0.521)	(-0.508)	(-0.508)
lndealsize				0.008	0.006	0.006
				(1.450)	(1.157)	(1.150)
Angel				0.044***	0.043***	0.043***
				(18.560)	(18.322)	(18.316)
total_deals				-0.065***	-0.065***	-0.065***
				(-8.269)	(-8.279)	(-8.279)
lnemployees				0.301***	0.300***	0.300***
				(75.998)	(75.926)	(75.924)
ceo_ability				0.021***	0.021***	0.021***
				(7.946)	(7.943)	(7.943)
Constant	4.140***	4.383***	4.486***	2.429***	2.515***	2.548***
	(325.047)	(191.532)	(161.273)	(66.372)	(62.501)	(60.148)
State FE	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
N	93,441	93,441	93,441	92,161	92,161	92,161
Adj. R^2	0.091	0.093	0.093	0.288	0.288	0.288

Notes: This table reports the OLS regression results of the effect of political homogeneity on the deal valuation of post investment. The definition of all variables is presented in Appendix A. Year, industry and state fixed effects are included in all models. T-statistics are reported in parentheses. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

Table 10: Cross-sectional Test: The effect of partisan conflict

Panel A: the inter-round deal interval

	(1)	(2)	(3)	(4)	(5)	(6)
Dep.Var=			***lndeal_interval***			
Group. Var= *partisan conflict*	Low	High	Low	High	Low	High
PHI1	0.006	0.029**				
	(0.530)	(2.543)				
PHI2			0.018	0.056**		
			(0.862)	(2.704)		
PHI3					0.031	0.097***
					(0.865)	(2.710)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
State FE	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
N	45,161	47,499	45,161	47,499	45,161	47,499
Adj. R^2	0.258	0.300	0.258	0.300	0.258	0.300

Panel B: the capital exit outcome

	(1)	(2)	(3)	(4)	(5)	(6)
Dep.Var=			***Successful_exit***			
Group. Var= *partisan conflict*	Low	High	Low	High	Low	High
PHI1	-0.061	-0.279***				
	(-1.197)	(-6.049)				
PHI2			-0.130	-0.575***		
			(-1.431)	(-6.972)		
PHI3					-0.227	-1.000***
					(-1.440)	(-6.992)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
State FE	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
N	18,839	18,937	18,839	18,937	18,839	18,937
Pseudo-R^2	0.298	0.183	0.298	0.183	0.298	0.183

Panel C: the total number of financing rounds

	(1)	(2)	(3)	(4)	(5)	(6)
Dep.Var=			***total_deals***			
Group. Var= *partisan conflict*	Low	High	Low	High	Low	High
PHI1	-0.649***	-0.732***				
	(-12.926)	(-12.722)				
PHI2			-1.400***	-1.637***		
			(-15.736)	(-15.973)		
PHI3					-2.438***	-2.853***
					(-15.811)	(-16.048)
chi2(1)=	1.15		2.91		2.93	
Prob > chi2=	(0.282)		(0.088)*		(0.086)*	
Controls	Yes	Yes	Yes	Yes	Yes	Yes
State FE	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
N	20,486	17,032	20,486	17,032	20,486	17,032
Adj. R^2	0.237	0.234	0.240	0.238	0.240	0.238

Notes: This table reports the cross-sectional test results. The Partisan Conflict Index (PCI) index, developed by Azzimonti (2018), captures the intensity of political disagreement between U.S. parties on a monthly basis. It is constructed from the frequency of newspaper articles mentioning political conflict and policy uncertainty across ten major U.S. newspapers, including The Wall Street Journal and The New York Times. A higher PCI indicates greater partisan polarization. In our analysis, we use the quarterly average of PCI to proxy for the level of macro-level political uncertainty. The definition of all variables is presented in Appendix A. Year and industry fixed effects are included in all models. T-statistics are reported in parentheses. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

Online Appendix Tables

Table OA1: The effects of political homogeneity on the deal interval: duration analysis

	(1)		(2)		(3)	
Dep.Var=			***Raising the next VC round***			
	Coeff.	Hazard Ratio	Coeff.	Hazard Ratio	Coeff.	Hazard Ratio
PHI1	-0.047***	0.955				
	(-4.467)					
PHI2			-0.101***	0.904		
			(-5.363)			
PHI3					-0.176***	0.838
					(-5.378)	
economic_conn	0.019***	1.019	0.018***	1.018	0.018***	1.018
	(8.304)		(8.009)		(8.003)	
constituency	-0.050	0.951	-0.050	0.951	-0.050	0.951
	(-1.337)		(-1.328)		(-1.328)	
lndealsize	-0.097***	0.907	-0.098***	0.907	-0.098***	0.907
	(-30.184)		(-30.202)		(-30.202)	
Angel	0.064***	1.066	0.063***	1.065	0.063***	1.065
	(13.935)		(13.717)		(13.713)	
dealno	0.050***	1.051	0.049***	1.051	0.049***	1.051
	(16.849)		(16.645)		(16.640)	
deal_per_year	0.681***	1.977	0.682***	1.977	0.682***	1.977
	(23.393)		(23.472)		(23.473)	
lnemployees	-0.055***	0.946	-0.055***	0.946	-0.055***	0.946
	(-17.140)		(-17.161)		(-17.162)	
ceo_ability	0.008***	1.008	0.008***	1.008	0.008***	1.008
	(3.529)		(3.539)		(3.539)	
State FE	Yes		Yes		Yes	
Industry FE	Yes		Yes		Yes	
Year FE	Yes		Yes		Yes	
N	90,458		90,458		90,458	
Pseudo-R^2	0.012		0.012		0.012	

Notes: This table presents the results of Cox proportional hazards that estimate evaluating the effect of political homogeneity (PHI) on the timing of staged VC deals. The dependent variable is the hazard rate of securing the next round of venture capital financing. We construct this variable using the time interval between two consecutive financing rounds, denoted as *deal_interval*, and defined the failure event as the occurrence of the next round. All observations are right-censored upon deal completion. Thus, a shorter *deal_interval* implies a higher hazard rate, and vice versa. Firms that experience shorter intervals between rounds exhibit higher hazards of raising new capital. The definition of all variables is presented in Appendix A. Year and industry fixed effects are included in all models. T-statistics are reported in parentheses. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

Table OA2: The effects of political homogeneity on the capital exit outcome : cutoff analysis

	(1)	(2)	(3)	(4)	(5)	(6)
Dep.Var=	***Successful_exit (exclude sample after 2015)***					
PHI1	-0.315***			-0.352***		
	(-6.520)			(-5.844)		
PHI2		-0.622***			-0.742***	
		(-7.237)			(-6.929)	
PHI3			-1.081***			-1.292***
			(-7.255)			(-6.955)
economic_conn				-0.106***	-0.109***	-0.109***
				(-9.056)	(-9.312)	(-9.319)
constituency				0.247	0.246	0.246
				(1.187)	(1.182)	(1.182)
lndealsize				0.657***	0.655***	0.655***
				(34.437)	(34.340)	(34.337)
Angel				-0.091***	-0.099***	-0.099***
				(-3.402)	(-3.659)	(-3.666)
total_deals				-0.097***	-0.099***	-0.099***
				(-10.738)	(-10.933)	(-10.939)
lnemployees				0.184***	0.184***	0.184***
				(11.270)	(11.262)	(11.262)
ceo_ability				-0.032***	-0.032***	-0.032***
				(-2.739)	(-2.728)	(-2.728)
Constant	0.400	0.708	0.836	-0.859	-0.450	-0.296
	(0.334)	(0.590)	(0.696)	(-0.517)	(-0.270)	(-0.178)
State FE	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
N	17,429	17,429	17,429	13,766	13,766	13,766
Pseudo-R^2	0.064	0.065	0.065	0.225	0.226	0.226

Notes: This table reports the logit regression results of the effect of political homogeneity on the capital exit outcome. The definition of all variables is presented in Appendix A. Year and industry fixed effects are included in all models. T-statistics are reported in parentheses. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

Table OA3: Alternative Industry Fix Effect: Using 7- industry sector FE

Panel A: the syndication intensity

	(1)	(2)	(3)	(4)	(5)	(6)
Dep.Var=	***lndeal_investors_dummy***			***lndeal_investors***		
PHI1	-1.150***			-0.304***		
	(-47.026)			(-47.400)		
PHI2		-2.363***			-0.623***	
		(-54.325)			(-54.477)	
PHI3			-4.109***			-1.083***
			(-54.474)			(-54.629)
Control	Yes	Yes	Yes	Yes	Yes	Yes
State FE	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
N	92,660	92,660	92,660	92,660	92,660	92,660
Adj/Pseudo. R^2	0.418	0.424	0.424	0.644	0.651	0.652

Panel B: the inter-round deal interval

	(1)	(2)	(3)	(4)	(5)	(6)
Dep.Var=			***lndeal_interval***			
PHI1	0.075***			0.019**		
	(7.858)			(2.465)		
PHI2		0.155***			0.041***	
		(9.312)			(2.895)	
PHI3			0.269***			0.071***
			(9.338)			(2.900)
Control	No	No	No	Yes	Yes	Yes
State FE	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
N	103,445	103,445	103,445	92,660	92,660	92,660
Adj. R^2	0.038	0.039	0.039	0.277	0.278	0.278

Panel C: the post-investment valuation

	(1)	(2)	(3)	(4)	(5)	(6)
Dep.Var=			***lndeal_interval***			
PHI1	-0.240***			-0.075***		
	(-16.525)			(-6.694)		
PHI2		-0.496***			-0.160***	
		(-19.523)			(-8.023)	
PHI3			-0.863***			-0.278***
			(-19.601)			(-8.057)
Control	No	No	No	Yes	Yes	Yes
State FE	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
N	93,441	93,441	93,441	92,161	92,161	92,161
Adj. R^2	0.079	0.081	0.081	0.281	0.282	0.282

Panel D: the capital exit outcome

	(1)	(2)	(3)	(4)	(5)	(6)
Dep.Var=			*Successful_exit*			
PHI1	-0.104***			-0.195***		
	(-3.836)			(-5.768)		
PHI2		-0.200***			-0.398***	
		(-4.169)			(-6.595)	
PHI3			-0.348***			-0.692***
			(-4.182)			(-6.616)
Controls	No	No	No	Yes	Yes	Yes
State FE	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
N	46,174	46,174	46,174	37,777	37,777	37,777
Pseudo-R^2	0.109	0.109	0.109	0.230	0.230	0.230

Panel E: the capital exit outcome: M&A & IPO

	(1)	(2)	(3)	(4)	(5)	(6)
Dep.Var=			*Successful_exit*			
PHI1	-0.155***			-0.197***		
	(-4.553)			(-2.641)		
PHI2		-0.326***			-0.394***	
		(-5.357)			(-2.956)	
PHI3			-0.567***			-0.685***
			(-5.379)			(-2.962)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
State FE	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
N	37,775	37,775	37,775	37,656	37,656	37,656
Pseudo-R^2	0.227	0.227	0.227	0.284	0.284	0.284

Panel F: the total number of financing rounds

	(1)	(2)	(3)	(4)	(5)	(6)
Dep.Var=			*total_deals*			
PHI1	-1.208***			-0.693***		
	(-32.157)			(-17.757)		
PHI2		-2.559***			-1.522***	
		(-38.073)			(-21.730)	
PHI3			-4.453***			-2.652***
			(-38.208)			(-21.827)
Controls	No	No	No	Yes	Yes	Yes
State FE	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
N	46,192	46,192	46,192	37,784	37,784	37,784
Adj. R^2	0.069	0.079	0.079	0.210	0.214	0.214

Notes: This table reports the results using alternative industry fix effect. The definition of all variables is presented in Appendix A. Year and industry fixed effects are included in all models. T-statistics are reported in parentheses. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

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