

Partisan Bias in Venture Capital Financing

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Motivation

Political spending and polarization are on the rise in corporate America, with evidence showing in the **venture capital (VC)** industry.

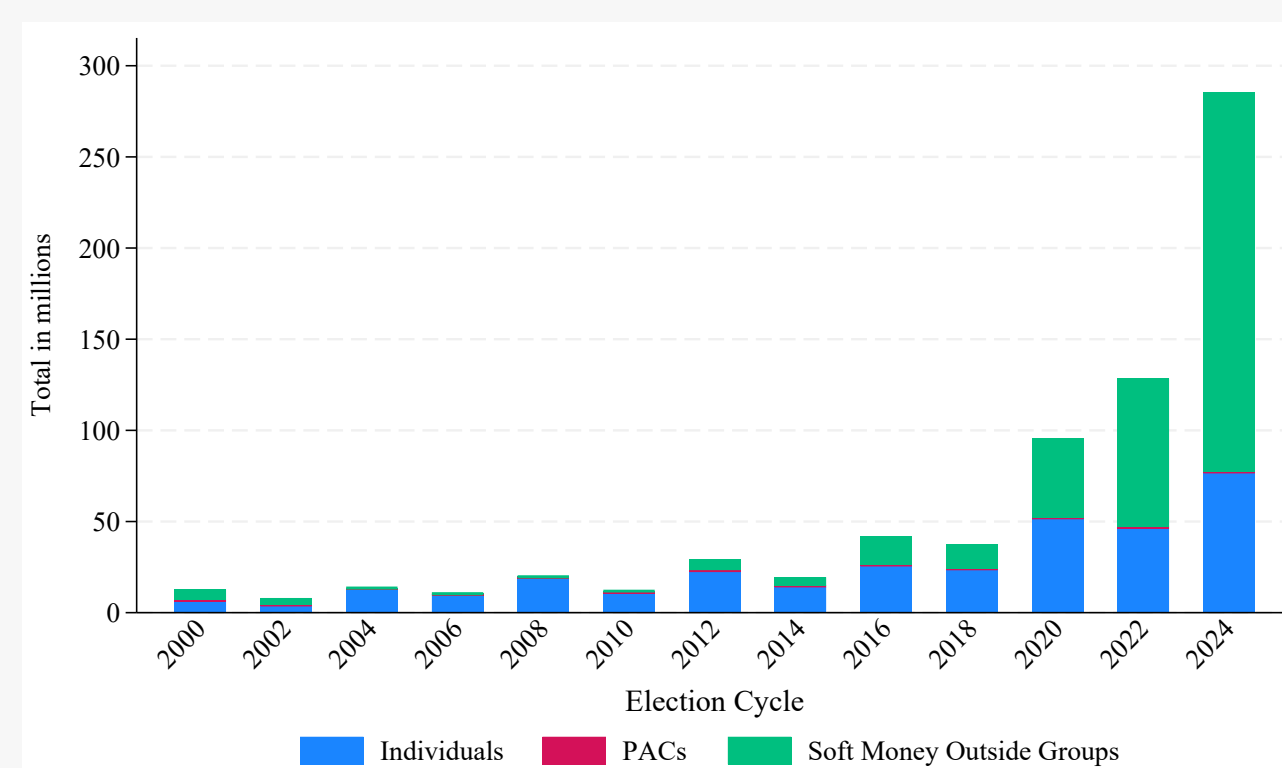


Peter Thiel, J.D. Vance Invest in Rumble Video Platform Popular on Political Right

Backing from conservative venture capitalists comes amid push for alternative social-media channels with looser rules on speech

By Keach Haggy [Follow](#)
Updated May 19, 2021 2:14 pm ET

High-profile VC investors, such as Peter Thiel and J.D. Vance (the U.S. Vice President nominated by Trump), have publicly aligned themselves with right-leaning media platforms. At the same time, political donations within the VC sector have seen a significant increase since 2000.



Research gap: Prior research documents that similarity along ethnicity, gender, education, and professional background affects VC decision-making.

This paper asks: Does political homophily between VC investors and startup CEOs influence investment decisions and exit performance?

Key Findings

This paper links VC partners and startup CEOs to political donation records and constructs the political homophily index (*PHI*) based on Lee et al. (2014, JFE).

Our main findings are:

- Political similarity **increases** deal formation, but **reduces** exit performance, lowering IPO and M&A success rates and delaying exits.
- Alignment with the **broader political environment** mitigates these negative effects by enhancing legitimacy and access to external resources.
- Political homophily shapes **deal structure**, including earlier investment stages, syndication patterns, and follow-on funding.
- The evidence, overall, supports the *in-group favoritism channel*.

Data and Sample

VC Investment level

- Thomson Reuters Eikon Private Equity Screener (a.k.a VentureXpert)
- U.S. based, \$0.01 to \$100 million, starting from the 1st round (2000-2021)

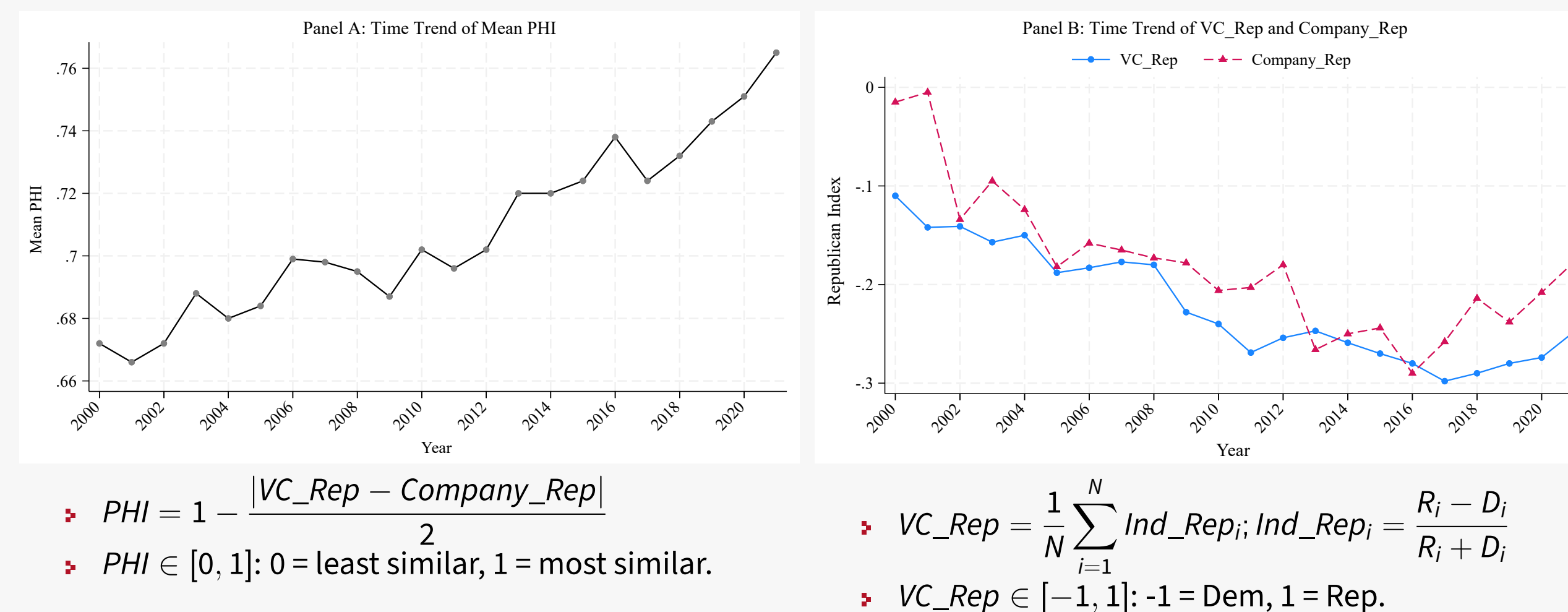
Individual level

- BoardEx and Capital IQ (VC partners and company CEOs)
- LinkedIn, Capital IQ, company website, news articles for tenure dates

Political donations

- Federal Election Commission (FEC) and Centre for Responsive Politics (CRP)

Stylized Facts



Partisan Bias and Investment Decisions

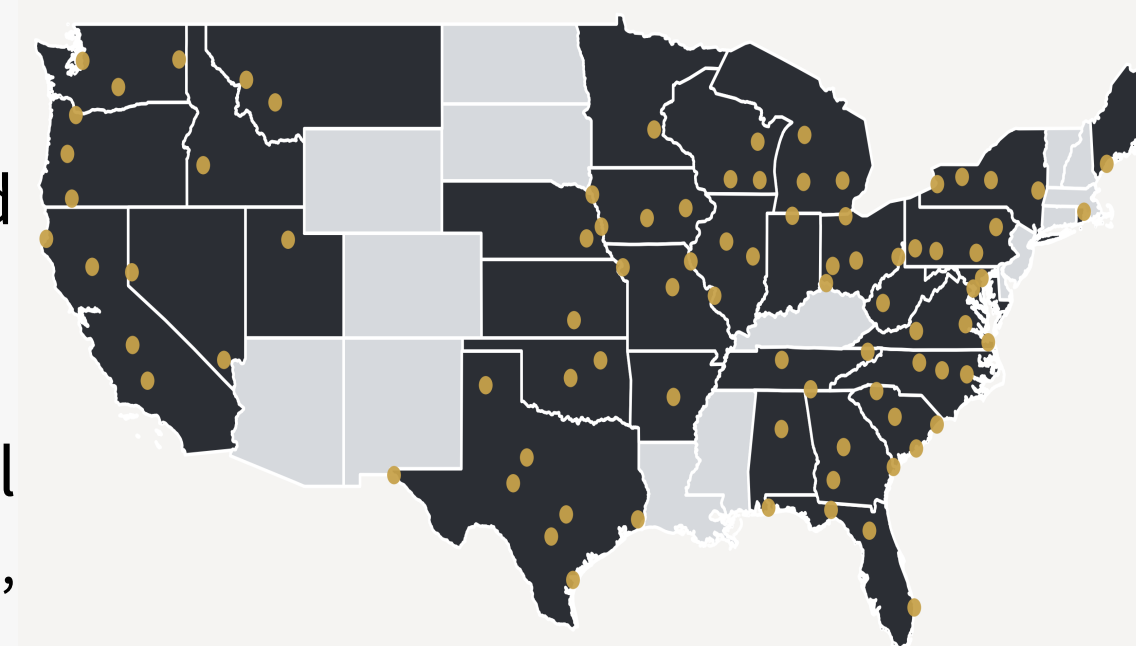
	(1)	(2)	(3)	(4)	(5)	(6)
	Deal	Deal	Deal	Deal	Deal	Deal
PHI	0.0037*** (0.0009)	0.0034*** (0.0009)	0.0035*** (0.0009)	0.0032*** (0.0009)	0.0031*** (0.0009)	0.0029*** (0.0009)
Gender Similarity		0.0019*** (0.0005)		0.0022*** (0.0005)		0.0047*** (0.0007)
Ethnicity Similarity		0.0053*** (0.0005)		0.0049*** (0.0005)		0.0050*** (0.0005)
Education Similarity		0.0060*** (0.0005)		0.0053*** (0.0005)		0.0055*** (0.0005)
Controls	No	No	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	No	No
VC FE	Yes	Yes	Yes	Yes	No	No
Company FE	Yes	Yes	Yes	Yes	No	No
Year × VC FE	No	No	No	No	Yes	Yes
Year × Company FE	No	No	No	No	Yes	Yes
Observations	1,296,331	1,280,954	1,296,331	1,280,954	1,296,328	1,280,938
Adj. R ²	0.088	0.088	0.089	0.089	0.092	0.092

Takeaway: Political homophily significantly $\uparrow\uparrow$ deal likelihood by approx. **13%** (0.0035/0.027), controlling for gender, ethnicity, education similarity, and high-dimensional fixed effects.

Identification Strategy

Sinclair TV Station Market

- Second-largest U.S. TV operator, reaching over **40%** of households.
- Shifts local political attitudes rightward (Levendusky, 2022; Dasgupta et al., 2024).
- Expansion driven by acquisition opportunities rather than local political or economic conditions (Martin & McCrain, 2019; Bushman et al., 2024).



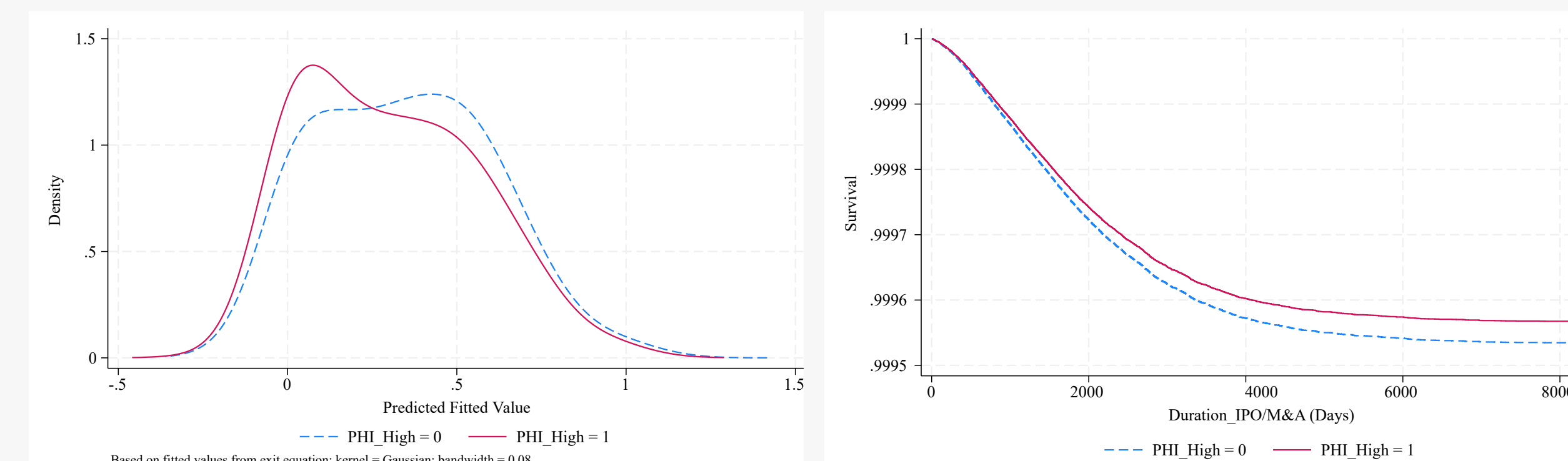
Results

- Sinclair Entry** \Rightarrow Shifts VC partners rightward and increases ideological alignment between *treated* VCs and *untreated* companies.
- Treat × Post** \Rightarrow Deal probability $\uparrow\uparrow$ by approx. **29.3%**.
- Dynamis DiD shows no differential investment trends prior to the entry.

Partisan Bias and Investment Performance

This study investigates the effects of *PHI* on successful exits using linear probability and Cox hazard models:

- One unit increase in *PHI* $\downarrow\downarrow$ exit likelihood by **5.0%**.
- A 1% increase in *PHI* $\downarrow\downarrow$ the hazard of a positive exit by **20.1%**.
- We also consider VC partner turnover as an exogenous shock.



- Kernel Density of Predicted Fitted Values by *PHI*
- Survival Estimates of VC-Backed Companies by *PHI*

The Role of Political Environment

The external political environment (e.g., local preference and incumbent president) acts as a moderating effect on negative exit performance:

Panel A: Local Political Alignment		
	Exits	Time
PHI	-0.046** (0.023)	-0.213** (0.097)
PHI × Company_County_Align × VC_County_Align	0.359** (0.170)	1.941** (0.785)
Observations	37,010	37,673
Adj./Pseudo R ²	0.278	0.034
Panel B: Incumbent President Alignment		
PHI	-0.075*** (0.021)	-0.324*** (0.103)
PHI × Company_Pres_Align × VC_Pres_Align	0.106** (0.043)	0.401** (0.182)
Observations	37,052	37,717
Adj./Pseudo R ²	0.279	0.034
Controls	Yes	Yes
VC FE	Yes	Yes
State FE	Yes	Yes
Year × Industry FE	Yes	Yes

- The presence of partisan connection-seeking?
- Politically independent companies tend to underperform compared to those benefiting from **lobbying** or receiving **government contracts**.

Conclusion

- Political homophily $\uparrow\uparrow$ VC deal likelihood but $\downarrow\downarrow$ exit performance (IPO/M&A success and timing).
- A favorable political environment (incumbent alignment, local preferences) mitigates negative effects by enhancing legitimacy and resource access.
- Evidence supports **in-group favoritism** bias: shared partisanship builds trust and collaboration, but induces overconfidence and groupthink that deteriorates exit performance.
- Implications:** Offers key insights for stakeholders (entrepreneurs, VCs, and policymakers) on how political partisanship shapes decision-making and outcomes in this innovative sector.