The Political Behavior of Family Firms: Evidence From Brazil[†]

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Abstract

We study the political behavior of family firms, the most prevalent corporate structure across the developing world. We argue that family firms are more politically active because their longer time horizons enable them to build and sustain relationships with political actors and to extract benefits from their political investments. Combining previously untapped firm-level information on family ties in publicly listed Brazilian firms with data on corporate campaign contributions, we document that family firms are 15 percentage points more likely to contribute to political campaigns compared to non-family firms — an 82 percent increase. We also find that individuals with family ties in a firm's leadership positions are more likely to make contributions. Contributions by family firms are more persistent over time, indicating that they reflect relationships. Family firms that contribute to campaigns are rewarded with state-subsidized loans, while those that fail to contribute face a penalty, suggesting a dynamic of reciprocity between business and state actors. Finally, we show that the entry of institutional investors has the potential to crowd out family ties within firms. The results provide empirical support to the claims of studies of comparative capitalism, while showing that the equilibria they describe are not necessarily static.

Keywords: family firms — campaign finance — corporate governance — Brazil

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1. Introduction

Family firms are the most prevalent corporate structure across the developing world (La Porta et al., 1999; Villalonga and Amit, 2020). Family capitalism is endemic in Latin America (Schneider, 2013, p.47).[1] This has proved an enduring characteristic, withstanding liberalization pressures and market reforms in recent decades. Some authors contend that family ownership and control of firms make Latin American capitalism more hierarchical, potentially hurting competitiveness and productivity (Caselli, 2016; Schneider, 2013).

In this article, we propose a theory of the political behavior of family firms. We define a family firm as one that fulfills two conditions: (1) the firm is family-owned — an individual or family is the ultimate owner of a plurality of voting shares — and (2) at least one family member has a top executive position.[2] We argue that family firms are more able to contribute to politics because their longer time horizons endow them with a superior capacity to build and sustain long-term relationships with political actors. This capacity stems from a key characteristic of families: they are apt units for the intergenerational formation and transmission of capital (Bates et al., 2004).

We study how this characteristic of family firms plays out in a strategic setting featuring politicians seeking to finance their campaigns and firms seeking to obtain economic returns from their political investments. At the core of this interaction lies a commitment problem — politicians cannot commit to paying back donors' favors (McCarthy and Rothenberg, 1996; Szakonyi, 2020). We contend that family firms' longer time horizons provide a solution to this problem by allowing for repeated interactions and facilitating intertemporal cooperation: family firms have a comparative advantage at building relational political capital. We then study the consequences of this advantage. In the developing world, firms extract considerable benefits from their political investments (Boas et al., 2014; Mironov and Zhuravskaya, 2016; Szakonyi, 2020), creating a

[1] According to data from the World Management Survey comprising mid- and large-size firms (Bloom et al., 2015), Latin America is the region of the world with the second highest prevalence of family firms (49 percent), only below sub-Saharan Africa (52 percent). The correlation between a country's GDP per capita and the prevalence of family firms is negative (Figure B1). Latin America is an outlier in that it lies above the regression line — it has a higher prevalence of family firms than would be predicted by its level of development.

[2] See Section 2 for details.

symbiotic relationship between political and economic capital.[3] In such settings, an advantage at building political relationships translates into a greater ability to reap economic benefits. Family firms' longer time horizons endow them with an advantage at *relational rent-seeking*.

We test this argument in the context of Brazil, the world's fourth largest democracy and Latin America's largest economy, hosting the region's most developed stock market. Families run more than 90 percent of Brazilian firms, and family firms represent more than 60 percent of the country's Gross Domestic Product and employ 75 percent of the labor force.[4] We create a novel dataset of publicly traded companies using reports filed with Brazil's securities regulator — containing detailed information on firms' ownership structure and family ties in the board of directors and top management positions — and match it to administrative data on the universe of campaign contributions.

We study the effect of family firm status using time-series cross-sectional analyses, controlling for time-varying covariates, and year and industry fixed effects. The results show that family firms are 15 percentage points (pp) more likely to contribute to political campaigns — an 82 percent increase compared to professionally managed firms. Firms with more family ties among leadership — a proxy for a family's involvement in the firm — are also more likely to make campaign contributions. In addition, we show that family firms' campaign contributions to a given political party — including those to candidates affiliated with that party — are more persistent across election cycles, indicating that they reflect relationships. Leveraging our data on family ties and individual campaign contributions, we then study the behavior of individuals in a firm's leadership positions. We find that, compared to individuals without family ties, members of the controlling family have a higher probability of making contributions, which increases with their number of family ties within the firm. This consistency between individual- and firm-level political behavior lends support to our claim that *family ties* are the driving force behind political activism. Taken together, these findings provide micro-level evidence consistent with the argu-

[3] A related literature documents the benefits that firms obtain from their political connections. See, for example: Earle and Gehlbach (2015); Faccio (2006); Fisman (2001); Johnson and Mitton (2003); Khwaja and Mian (2005).

[4] *Jornal da USP*, "Empresas familiares representam 90% dos empreendimentos no Brasil", Oct 18, 2018.

ment that the political advantage of family firms resides in their increased capacity to build and cultivate long-term relationships with political actors.

We then study whether family firms extract rents from their political investments, focusing on preferential access to state-subsidized credit.[5] We find that contributing family firms are more likely to obtain loans by Brazil's National Development Bank (BNDES) — they enjoy a 15 pp premium in the probability of receiving a loan in the two-year period following a contribution. Interestingly, family firms that fail to contribute face a 7 pp penalty. This suggests a dynamic of reciprocity, with family firms facing both higher rewards and penalties compared to non-family firms. Furthermore, firms that are more dependent on such loans are more likely to contribute as time goes on, indicating that debt induces further contributions. Overall, this reveals a feedback loop: contributions buy loans, which deepens state-dependence and, in turn, induces further contributions.

We also uncover interesting patterns on family firms' contribution targets: they contribute more to parties than to individual candidates, and to a greater number of parties. We do not find evidence that family firms' contributions respond to an ideological motive. Finally, we study whether this political-economic equilibrium can be broken and find that the entry of institutional investors has the potential to crowd out the prevalence of family ties within firms.

This article contributes to three strands of literature. First, we add to the literature on family firms. There is little research on the political behavior of family firms in both developing and developed countries. Extant research has mostly focused on economic outcomes, ignoring whether these firms display distinctive political behavior (Bertrand and Schoar, 2006; Burkart et al., 2003; Caselli and Gennaioli, 2013; Iacovone et al., 2019; Lemos and Scur, 2019). Economists have noted two core features of family firms — their lower productivity and their remarkable persistence (Villalonga and Amit, 2020) — but have failed to elucidate their political consequences. Fam-

[5]We follow Khwaja and Mian (2005), who study preferential lending from government banks to firms in Pakistan and find that politically connected firms obtain greater access to credit at a lower price. For Brazil, Claessens et al. (2008) find that firms that contribute to political campaigns are more leveraged and Lazzarini et al. (2015) find that loans from Brazil's National Development Bank are in part allocated according to political criteria. See Khwaja and Mian (2011) for a review of rent-seeking in financial markets.

ily firms may, for example, be more dependent on political favors to survive due to their lower productivity, may be more prone to agency problems that allow insiders to use corporate assets to contribute to political campaigns (Aggarwal et al., 2012), or may organize economic groups that wield significant political power (Schneider, 2013). Closest to our argument is the idea that in countries with oligarchic families trust among a close-knit elite may facilitate rent-seeking behavior (Morck and Yeung, 2004). We go above and beyond these arguments and propose an explanation rooted in political economy that is based on the features of family ties and those of the strategic political environment in which firms operate. Second, our paper expands on a large literature on campaign contributions (Ansolabehere et al., 2003; Fouirnaies and Hall, 2014; Fowler et al., 2020) by providing a detailed study of corporate contributions in a developing country and by revealing that family firms are actors that wield great political influence. Finally, we contribute to work on the political influence of families, which has mostly focused on electoral settings (Cruz et al., 2017; Dal Bó et al., 2009; Querubin, 2016; Smith, 2018), by extending the analysis to the domain of corporate political activity. While some of this research documents that certain features of family ties — such as in-group trust and a superior capacity for coordination (Alesina and Giuliano, 2010; Arias et al., 2019; Enke, 2019; McNamara and Henrich, 2017) — provide kin-related individuals with a comparative advantage at political action, our focus is on how families' capacity to form and transmit capital across generations translates into increased political activism.

This article is organized as follows. Section 2 presents our argument about the political behavior of family firms. Section 3 provides background on electoral institutions, campaign contributions, and corporate governance in Brazil. Section 4 describes the data sources. Section 5 presents the results. Section 6 concludes.

2. The Political Behavior of Family Firms

We present a theory of the political behavior of family firms. As noted in Section 1, we define a family firm as one that fulfills two conditions: (1) the firm is family-owned — an individual or family is the ultimate owner of a plurality of voting shares — and (2) at least one family member has a top executive position, not just one in the board of directors.[6] This conceptualization goes beyond definitions based solely on ownership (La Porta et al., 1999) and emphasizes family involvement in a firm's management, a characteristic that has been shown to be consequential for firm performance — the best available studies provide evidence that family management is the key reason behind family firms' lower productivity (Bennedsen et al., 2007; Lemos and Scur, 2019).[7]

2.1 Family Ties, Political Investment, and the Commitment Problem

We contend that family firms are more politically active due to their superior capacity to engage in long-term relational contracts with political actors. Convergent lines of research show that family ties are a powerful force driving political behavior through mechanisms such as coordination (Arias et al., 2019; McNamara and Henrich, 2017) and in-group trust (Alesina and Giuliano, 2010; Enke, 2019).[8] Here we focus on families' role in the formation and reproduction of capital. Families exist as units across time, spanning multiple generations. Using an overlapping generations model, Bates et al. (2004) illustrate how families create capital: investment in younger generations is made possible when older generations hold authoritative positions and can thus punish potential defectors. Families thus provide a means for transacting across time (Bates et al.,

[6] Cases in which a firm fulfills the first condition of this definition but has a single owner who serves as CEO are classified as non-family firms (there are no family ties in such firms).

[7] See Villalonga and Amit (2020) for a discussion of measures and definitions.

[8] The historical record and survey evidence point to the importance of the family in Brazilian society. It is a central topic in the classics of Brazilian sociology (Freyre, 1933; Oliveira Vianna, 1949), and traditional families have played an important role in the country's political development (Hagopian, 2007). In an index of the strength of family ties comprising about 80 countries, Brazil ranks 23rd in the world and third in Latin America (Alesina and Giuliano, 2010).

2004, p.66). This logic is borne out in the context of family firms — a core concern of family owners is retaining control of the business and passing it on to future generations, creating long time horizons (Anderson and Reeb, 2003; Villalonga and Amit, 2020).

We study how this property of family ties — and, by extension, family firms — plays out in the interaction between firms and politicians in a developing democracy. This interaction is marked by a commitment problem — politicians cannot credibly commit to returning a donor's favors (McCarthy and Rothenberg, 1996; Szakonyi, 2020). The risk of shirking may be more acute in weakly institutionalized democracies (Treisman, 1998; Szakonyi, 2020).[9] A natural mechanism to alleviate this problem is repeated interaction, which may help make contribution contracts self-enforcing. Indeed, donors may treat campaign contributions as long-term investments rather than spot transactions (Snyder, 1990, 1992). Consistent with this idea, recent empirical work in contexts as different as China and Brazil documents that politicians and firms achieve cooperation through repeated interaction (Lei, 2021), and contributions effectively follow an investment logic (Mao and Kim, 2020).[10] In the case of Brazil, Samuels (2001a, p.34) argues that corporations "take a long-term view and seek to invest in enduring relationships with politicians who will exert influence over government resources." Such investments are further facilitated by the nature of political careers in Brazil, where career politicians are more common than one-shot amateurs (Boas et al., 2014; Samuels, 2001a).

[9] Treisman (1998, p.12) writes: "A long-run perspective and repeated interaction between politicians and the same sponsors create incentives to invest in a reputation for trustworthiness. The first generation of new democratic politicians, however, often has a short-run perspective since the structure and durability of the system are themselves uncertain [...] In new democracies parties are often weak and personalized. Clear, internalized norms of political behavior may inhibit politicians from extremes of opportunism; such norms have had little time to develop in democratizing states."

[10] For Brazil, Mao and Kim (2020) show that corporate contributions follow the logic of portfolio theory. For China, Lei (2021) shows that local governments that granted more favors to firms received more assistance from firms to raise the tax revenue after a tax reform; the author explains this by a logic of reciprocity in which governments and firms exchange favors in a repeated setup.

2.2 Firm-Level Empirical Implications

We argue that this investment logic is particularly salient in family firms due to their longer time horizons. Controlling families are well-positioned to make credible promises to sustain long-term contracts, given their concentrated investment in the firm, their control rights, and the fact that family appointments in top management positions signal an intention to retain ownership and control across generations. Consider the case of a firm's CEO who asks a political candidate to lobby for the approval of a project. Because this contract cannot be enforced by law, the politician has an incentive to renege on his campaign promise. However, the CEO of a family firm knows that she — or a family member — will remain in her position in the next election cycle, when she may punish the politician's defection by contributing to a different candidate. Repeated interaction alleviates the commitment problem by rendering political contracts self-enforcing — they become relational capital (Morck and Yeung, 2004).[11] Long time horizons thus facilitate the formation of political capital.[12]

Empirically, our argument implies that family firms should be more politically active, i.e., more likely to make campaign contributions (**EI 1**).[13] It also entails that a firm's political activism should increase with the level of family involvement: firms with more family ties should contribute more to politics (**EI 2**). Lastly, our argument that family firms' contributions are best understood as relationships suggests that such contributions should be more persistent over time compared to those by non-family firms (**EI 3**).

[11]Recent work makes an analogous argument about labor contracts. Family firms' long time horizons allow them to pay lower wages while committing to long-term contracts, thereby offering higher job security (Bassanini et al., 2013; Sraer and Thesmar, 2007). See Post (2014) for an argument on how the long time horizons of domestic firms allow them to maintain long-term contracts with the state in weak institutional environments.

[12]Writing about economic groups in Latin America, Schneider and Soskice (2009, p.39) note that "while a group may not last forever, it can make informal medium- or long-term commitments because it can avoid being taken over. This is reinforced by the trust nature of family relationships."

[13]It is possible that this capacity results in other forms of political activism. Recent work argues that in weakly institutionalized settings, businessmen may overcome the commitment problem by running for office (Gehlbach et al., 2010; Szakonyi, 2020). However, this assumes that long-term contracts between firms and politicians are not feasible. As explained above, this is not necessarily true in the Brazilian case, where contracting between firms and politicians is, in fact, possible through reputation and sanctioning mechanisms (Samuels, 2001a). Given family firms' advantage at building relational contracts and the prominence of campaign contributions as a means of political influence in this context (see Section 3.2), we do not expect family firms to actively engage in this behavior.

2.3 Individual-Level Empirical Implications

At the core of our theory is the notion that the behavior of family firms is a consequence of the behavior of families, which are defined by family ties. Thus, our argument also has individual-level empirical implications. In particular, it implies that individuals who belong to the controlling family should display higher political activism (**EI 4**), which should increase with their number of family ties (**EI 5**).[14] Two unique features of our empirical setting allow us to test these implications, which — to the best of our knowledge — have not been explored by previous studies of family firms. First, as detailed in Section 4, we measure family ties within firms, providing a measure of a family's actual involvement in a firm, above and beyond standard ownership-based measures. Second, we have data on both firm- and individual-level campaign contributions, allowing us to probe the consistency between the political behavior of firms and that of individuals working in those firms.

2.4 Relational Rent-Seeking

Brazilian firms reap significant benefits from their political investments, including government contracts and state-subsidized loans (Boas et al., 2014; Claessens et al., 2008; Lazzarini et al., 2015).[15] In a context marked by strong incentives for rent-seeking, firms that are more capable of sustaining political contracts may be particularly well-positioned to capture rents. Thus, our argument implies that family firms will exploit their capacity to build stable political relations to secure rents and will likely be more successful at doing so (**EI 6**). In other words, we argue that family firms engage in relational rent-seeking: contributions are reflective of relationships that yield significant economic returns, engendering a symbiotic relationship between economic and political capital (Figure 1).

[14]This last prediction is premised on the notion that family ties transmit influence. See Balán et al. (2021) for empirical evidence supporting this idea.

[15]See Section 3 for details.

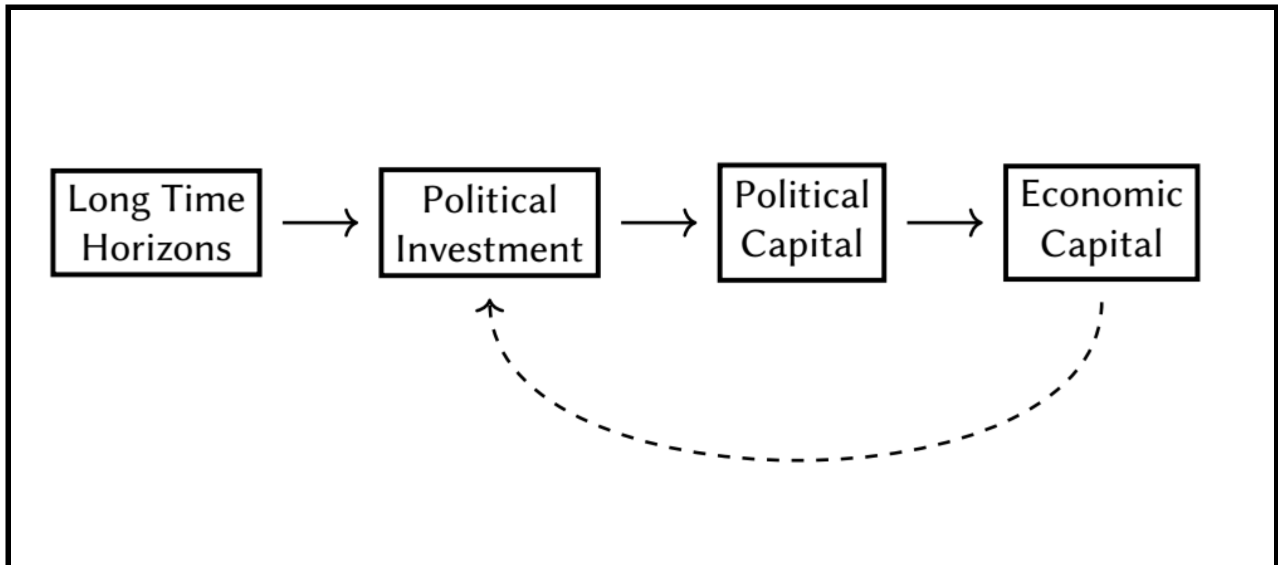

Figure 1: Relationship between long time horizons, political investment, and political and economic capital

3. Background

This section provides background on electoral institutions, campaign contributions, and corporate governance in Brazil.

3.1 Electoral Institutions and Political Competition

Brazil is a federal presidential democracy with a multiparty system. Legislative candidates are elected through an open-list proportional representation system, allowing voters to cast ballots for individual candidates. This makes politicians highly autonomous vis-à-vis parties, creating incentives to cultivate a personal vote and to pursue long-term political careers (Samuels, 2001b, 2002). It also makes campaigns more expensive, since candidates have to compete against their own list mates. The organizational weakness of parties and the low level of public financing of politics (Bourdoukan, 2010) further increase the cost of campaigns and induce candidates to raise their own funds. Brazilian elections are among the most expensive in the world. The 2014

presidential election cost $4.8 billion — approximately $23 per capita; for comparison, the United States 2016 presidential election cost $6.5 billion — approximately $20 per capita.[16]

These properties of the electoral system foster party proliferation and hurt the development of programmatic parties (Mainwaring, 1991). The largest parties in terms of votes and seats are the Workers' Party (PT), the Brazilian Democratic Movement (MDB), the Brazilian Social Democratic Party (PSDB), and the Democratic Party (DEM). Parties are ideologically diverse, with the PT typically classified as left-wing, MDB as center, PSDB as center-right, and DEM as right-wing. During most of the period we study, the national government comprised a coalition of five parties. In a context of high party fragmentation and low party discipline, presidents secure governability by forming large government coalitions (Figueiredo and Limongi, 2000). Parties form coalitions at the national, state, and municipal levels. This multiplies the number of access points and expands the market for political favors. Lastly, Congress has large influence over the allocation of pork-barrel projects (Samuels, 2002). It amends the budget and, after its approval, legislators lobby the executive branch for the allocation of funds, making them attractive contribution targets (Boas et al., 2014; Tollini, 2009).

3.2 The Logic of Campaign Contributions

Campaign contributions are a key component of the investment portfolio of business in politics (Schneider, 2010). It is useful to highlight some differences between Brazil and the United States. In 2015, the Brazilian Supreme Court issued a ruling banning corporate campaign contributions (ADI-4650). In this section, we describe the logic of campaign contributions in Brazil prior to this change.[17]

For a host of legal and institutional reasons, corporate campaign contributions in Brazil constitute a privileged channel of political influence and are orders of magnitude higher than in the

[16] *Wall Street Journal*, "Brazil's Congress Approves Public Campaign Finance Bill", Oct 5, 2017.

[17] The purpose of this ruling was to limit the influence of money in politics, especially after the salient *Lava Jato* corruption scandal.

United States. First, under the pre-2015 regime — governed by Law 9.504/1997 — corporate campaign contributions were legal and contribution limits were lax. Firms were legally allowed to donate up to 2 percent of their gross annual revenue and individuals could donate up to 10 percent of their gross annual income to political campaigns. Second, despite the country's large and dynamic industrial sector, it lacks a strong economy-wide peak association (Schneider, 2004).[18] As a result, business actors have been compelled to find alternative channels of political influence. Under this regime, firms made the majority of campaign contributions (75 percent in the 2010 election cycle), with fewer than 100 firms making roughly half of contributions (Mancuso, 2015). To provide a sense of the magnitude of contributions, Table C1 in the Appendix displays a list of the top ten corporate donors to the 2014 election and the amounts they contributed, as well as their assets and the government bank loans they received. By contrast, in the United States, before the *Citizens United* Supreme Court ruling, political action committees (PACs) could give no more than $10,000 to candidates in a two-year election cycle.[19]

A second distinction exists regarding the returns to political donations. Puzzled by the relatively small amount of corporate money in politics in the United States, students of American politics have concluded that campaign contributions likely reflect a consumption motive (Ansolabehere et al., 2003). By contrast, studies of campaign finance in developing countries consistently show that contributions can buy legislation, favorable regulation, or state bank loans (Mironov and Zhuravskaya, 2016; Treisman, 1998; Szakonyi, 2020). In Brazil, corporate political action can affect policy outcomes through several access points. Seeking to further their political careers, Brazilian legislators typically trade pork-barrel projects for corporate money (Samuels, 2002). Brazilian presidents typically use public resources to build and sustain legislative coalitions (Amorim Neto, 2007; Power, 2010), but some presidents, such as PT's Lula da Silva, also rewarded individual legislators by influencing key ministries' spending decisions (Boas et al.,

[18] While in the United States campaign contributions are typically complemented by other strategies such as lobbying (Kim et al., 2020), Brazil does not have a professional lobbying industry and does not regulate lobbying activities (OECD, 2014). For an argument on why pragmatic contributions are more prevalent in countries with weak business associations, see McMenamin (2012).

[19] Research shows that the *Citizens United* ruling did not alter contributions by major corporations (Hansen et al., 2015).

2014; Samuels, 2008).

Whereas in the United States the average firm obtains no returns from their contributions (Fowler et al., 2020),[20] Brazilian firms extract considerable benefits from their political investments. Construction firms donating to a candidate who barely wins have been shown to obtain an additional $73,921 to $184,676 in government contracts for each corporate donor — 14 to 39 times the average contribution (Boas et al., 2014).[21] Contributing firms secure 20–25 percent more procurement contracts (Cavgias and Granella, 2020). They also obtain preferential access to finance. Claessens et al. (2008) estimate that a one standard deviation increase in contributions is associated with a 9.4 percent increase in bank leverage growth in the four-year period following an election. In a similar vein, the marginal donation to a winning deputy increases loans by Brazil's National Development Bank (BNDES) by around $45.9 million (Lazzarini et al., 2015). Finally, contributing firms perform better on the stock market: a one standard deviation increase in contributions is associated with a 3.5 percent increase in cumulative abnormal returns (Claessens et al., 2008).[22] Campaign contributions thus increase the economic capital of firms — in essence, they are investments in political capital.

Despite these differences, the United States and Brazil are likely outliers with respect to other countries in the region, both in terms of the volume of campaign contributions and the mode of business participation in politics. In both countries, elections cost more than $20 per capita, whereas in other Latin American countries the cost is rarely above $10 per capita.[23] In countries such as Chile and Mexico, where business participation is more organized — they have strong encompassing national associations – business influence tends to occur through other channels, such as councils and fora. It is no coincidence then, that in these countries, where other modes of

[20]The best available evidence shows that campaign contributions can buy *access* to legislators (Kalla and Broockman, 2016).

[21]See also Arvate et al. (2013) who estimate high expected returns to campaign contributions.

[22]See Bandeira de Mello et al. (2012) for further evidence.

[23]The average is $6.48 per capita (Casas-Zamora and Zovatto, 2016, p.63). It should be noted that an additional reason for the relative absence of studies of campaign contributions in other Latin American countries is the lack of transparency in campaign finance in the region, which makes figures less reliable. Comparative studies are rare, and single-country studies tend to be qualitative (Casas-Zamora and Zovatto, 2016).

corporate political influence are more prevalent, studies of campaign contributions are scant. By contrast, in the United States and Brazil, business political organization is fragmented and informal (Schneider, 2010), making campaign contributions a preferred channel of political influence.

3.3 Corporate Governance

Latin American capitalism has not converged toward the type of corporate governance prevalent in the United States, characterized by developed equity markets; extensive institutional ownership of corporate assets; and autonomous, professional management. Instead, the market capitalization and liquidity of Latin American stock markets is significantly lower than what would be expected given the region's level of development (Heng et al., 2016; de la Torre et al., 2008). Firm ownership structures remain markedly concentrated, and institutional investors are mostly absent, even among listed companies (De La Cruz et al., 2019). Other than multinational companies and state-owned enterprises, corporate governance remains organized around large, family-owned, diversified business groups that account for a significant share of the economy (Schneider, 2013). There is no clear separation between ownership and control, and little room for autonomous management teams — this is one of the core "hierarchical" features of Latin American capitalism (Schneider, 2009, 2013).[24]

The Brazilian Institute of Corporate Governance issues recommendations for best practices in a Corporate Governance Code (IBGC, 2015). While Brazilian corporate law stipulates that a public company's board of directors must have at least three members, the Code recommends that a firm's board of directors has an odd number of members, ideally between five and eleven. In our sample, the average number of board members is 6.8. The code also recommends a "significant representation" of independent directors. Actual firm practices exhibit significant departures

[24] According to Schneider (2009, 2013), hierarchical market economies are characterized by the prevalence of diversified business groups, multinational corporations, low-skilled labor, and atomistic labor relations. In these areas, according to the author, hierarchical practices generally prevail over market mechanisms or coordination. For example, on-the-job training is decided by firms, not market mechanisms, and industrial relations are structured by top-down state regulations issued by governments. Hierarchy is especially prevalent in the domain of corporate governance, since most firms are controlled and managed by their owners, many of which are families.

from the Code's recommendations. The number of independent directors is low — 1.5 per firm — and many are appointed by the controlling group. Furthermore, formal board processes are limited (not all boards meet annually and few firms enact bylaws), and audit committees are rare and seldom have independent directors or accounting experts (Carvalho et al., 2015).

The departure from American-style corporate governance is more pronounced among family firms. According to a survey of Brazilian privately-held family firms (IBGC, 2019),[25] 82.1 percent have a member of the controlling family as president, and fewer than 30 percent have a formal succession plan. Notably, 71.7 percent are controlled by a single family, and 79.6 percent do not have non-family partners; 52 percent do not have any formal document regulating the relationship between business and family matters. Lastly, most family firms span three generations, and members of the first generation are active in 71 percent of the firms surveyed in this study. This is consistent with these firms having long time horizons and a preference for retaining control.

4. Data

We employ data on Brazil's public companies, on the universe of campaign contributions in the country, and on loans by Brazil's National Development Bank.

Brazilian public companies. We construct a novel dataset comprising all the companies under the supervision of Brazil's securities regulator, known as *Comissão de Valores Mobiliários* (CVM). The CVM provides more detailed information relative to standard sources such as Bureau van Dijk and Capital IQ. We collect all 6,219 *Formulários de Referência* (structured reports) and 6,424 *Formulários Cadastrais* (forms containing additional data on firms), comprising a total of 593 public companies between 2010 and 2018.[26]

[25] An online survey of 279 mid- to large-sized private firms in 21 states of the five Brazilian regions implemented by the IBGC and PricewaterhouseCoopers. See IBGC (2019) for details.

[26] We also created an interactive web application to visualize and explore the data: https://familyfirms.shinyapps.io/contributions/. See Online Appendix Section I for further details on this dataset.

The data include firms' financial information, ownership structure (up to the ultimate owners), its subsidiaries and, crucially for this paper, family ties between individuals in leadership positions (board members and top management) and blockholders (either of the firm or controlled companies). This unique feature allows us to measure family ties with higher precision than studies relying on rough measures such as shared last names.[27]

Consider the case of JBS, the world's largest meat processing company (Figure 2). In 2010, Joesley Mendonça Batista sat atop the board of directors and also served as CEO and CFO. Five other members of the Batista family were board members, with José Batista Sobrinho, the company's founder, also serving on the board. This organizational chart illustrates the involvement of the family in the firm and the substantial overlap between board and management membership characteristic of family firms.

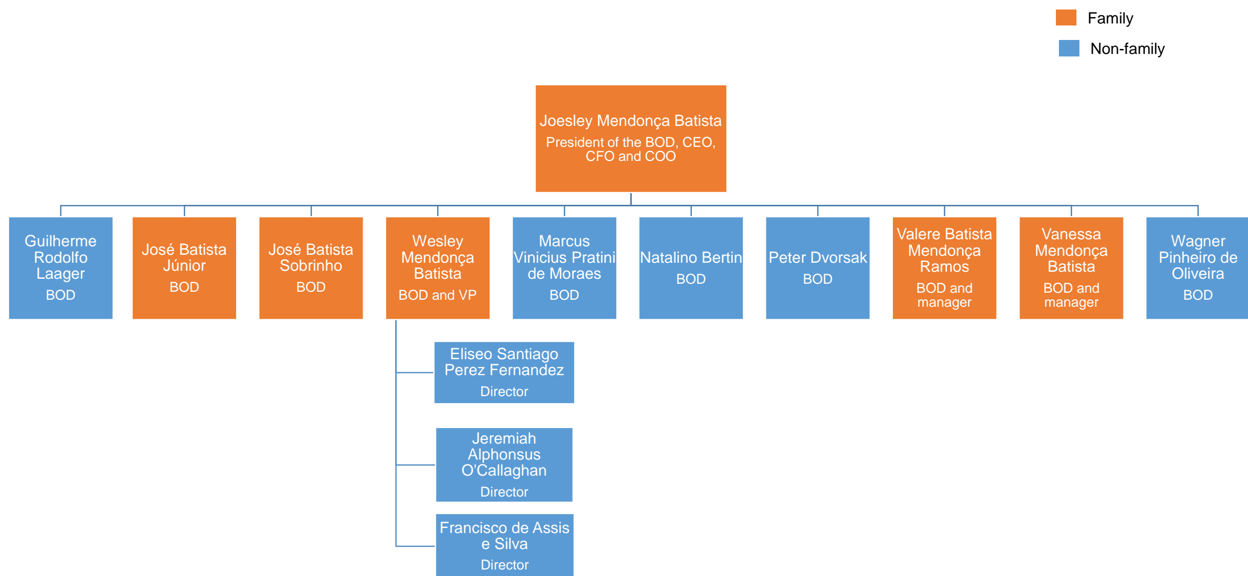

Figure 2: Organization Chart and Family Ties in JBS S.A. in 2010

There are several advantages to focusing on listed companies. First, the firms in our sample

[27]See Table C2 for descriptive statistics on firms in our sample, by firm type.

control substantial assets — the market capitalization of listed companies in Brazil represented between 50 and 70 percent of the country's GDP in the period we study.[28] Second, compared to private companies, public companies exhibit important variation in their ownership and management structures, providing significant empirical leverage. Finally, given that these companies abide by securities regulations — and therefore arguably have better management practices and governance structures relative to private companies — our sample provides a stringent setting to test our argument.[29]

Campaign contributions. We match this firm-level information with data on the universe of campaign contributions. In Brazil, electoral regulation mandates that candidates disclose information on the individuals and firms that contributed to their campaign. This information is available from Brazil's electoral court, known as *Tribunal Superior Eleitoral* (TSE). We collect data for every election held between 2010 and 2018, comprising three general elections (2010, 2014 and 2018) and two municipal elections (2012 and 2016).[30] Firm-level contribution data include those made by listed companies and their subsidiaries, while individual-level data comprises contributions by board members and individuals in top management positions. Given that in 2015 a Supreme Court ruling banned corporate campaign contributions, our analysis employs data on both individual and corporate contributions for the 2010-2014 period, and only on individual contributions after that date.[31] We exactly match individual and corporate contributions to the firm data using Brazil's system of unique individual and firm identifiers.[32] For each contribution, we know the amount; whether it is directed to a candidate or to a party; if to a party, to which party; and if to a candidate, whether she is an incumbent politician and whether she won the election.

[28] World Bank Open Data.

[29] Worse corporate governance is associated with political activism, potentially due to agency problems (Aggarwal et al., 2012).

[30] There are two main reasons for including municipal-level contributions. First, our data include large companies whose interests likely span both the national and municipal levels. Even large companies operate at the local level and likely seek to obtain benefits from local politicians. Second, career paths in Brazil often start at the subnational level — thus donors seeking to establish long-term relationships with political actors may cultivate relationships with local-level politicians.

[31] See Balán et al. (2021) for evidence on the differential effect of this ban on family firms.

[32] Known, respectively, as CPF and CNPJ.

State-subsidized loans. We employ data on loans by Brazil's National Development Bank (BNDES), available from the entity's website. We focus on non-automatic loans, which require explicit approval and therefore are likely to comprise a higher proportion of potentially discretionary loans.[33] On average, non-automatic loans are 48 times larger than automatic loans (the median value of non-automatic loans is $5.5 million, whereas the median for automatic loans is about $89,000).[34] The median size of loans in our sample is $6.8 million.

5. Results

This section presents our main finding that family firms as well as family members within firms are more likely to contribute to political campaigns. It then documents that family firms are more likely to obtain state-subsidized loans.

5.1 Family Firms are More Likely to Make Campaign Contributions

5.1.1 Firm-Level Results

In this section we probe the first empirical implication of our theory — that family firms are more likely to make campaign contributions (**EI 1**). We estimate the following linear probability model:

$$\text{Contribution}_{it} = \beta \text{ Family Firm}_{it} + \gamma^{\top}\mathbf{X}_{it} + u_t + v_j + \epsilon_{it} \tag{1}$$

where i denotes firms, t denotes election cycles, Contribution_{it} is an indicator that takes the value 1 if a firm contributed in a given election cycle and 0 otherwise, $\mathbf{X}_{it}$ is a vector of time-varying firm-level covariates, v_j are industry fixed effects, and u_t are year fixed effects. Standard errors

[33]Most non-automatic loans are granted to large firms, whereas most automatic loans are granted to small firms. By contrast, automatic loans are approved and administered by financial intermediaries (who negotiate the terms of the loan and bear the default risk), following the rules and limits set by the existing BNDES credit lines. As of 2019, automatic loans had a limit of R$150 million ($\simeq$ $36 million), while non-automatic loans had to be at least R$10 million ($\simeq$ $2.5 million) and had no upper limit.

[34]On average, non-automatic loans have a lower interest rate and a longer time to maturity.

are clustered at the firm level. The coefficient of interest, β, captures the effect of family firm status on the probability of making a campaign contribution.

The first coefficient in Figure 3 shows that family firms are 20 pp more likely to make campaign contributions. The coefficient drops to 15 pp when including industry fixed effects, a rich vector of firm-level controls (a firm's income, assets, age, and whether it is foreign or state-owned), and a set of corporate governance variables (the fraction of ordinary shares owned by natural persons, their concentration in the hand of a firm's ultimate owners, the fraction of shares in free float, and the gap between voting and cash flow rights of the largest shareholder). Given that the probability that non-family firms contribute is about 0.18 (Table A1), this represents roughly an 82 percent increase.

The fact that the coefficient on family firm status remains significant after the inclusion of these covariates suggests that family control is not just a proxy for a firm's size, longevity, corporate governance practices,[35] or selection into specific sectors.[36] The coefficient remains stable when we include a firm's subsidiaries and slightly decreases in magnitude when we include private contributions by a firm's top leadership members.[37]

[35] Assets and income are measures of a firm's size. In our sample, non-family firms are slightly larger in terms of both variables, creating imbalance and potential confounding. Both factors are positively correlated with the probability of contributing. Family firms in our sample are about a decade older than non-family firms (41.6 versus 32.3 years), but age is not correlated with contributions. Two of the corporate governance variables are positively correlated with contributions. Ordinary shares in free float captures the weight of atomized investors relative to blockholders, whereas largest shareholder gap is the difference between the fraction of shares with full voting rights owned by the largest shareholder and the fraction of all shares owned by her. The positive coefficient on these variables lend support to explanations of campaign contributions based on agency problems within firms (Aggarwal et al., 2012). See Table A1 for the full set of estimates.

[36] We estimate heterogeneous effects by industry and find that, in general, family firms are more likely to make contributions independent of their sector — except for the negative (but non-significant) coefficient for extractive industries, a sector with very few firms (Figure A1 in the Online Appendix).

[37] The coefficients remain stable when excluding municipal-level elections (see Table A4 in the Online Appendix).

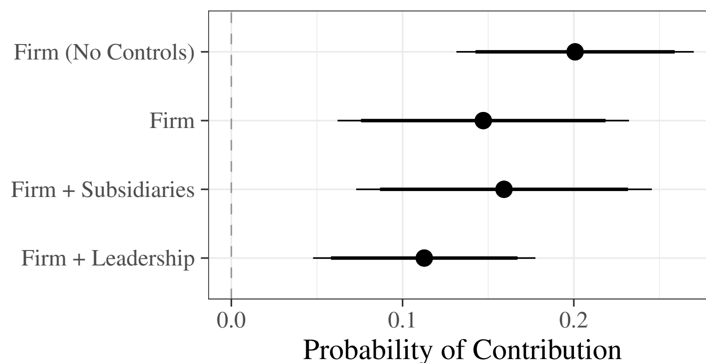

Figure 3: Family firms are more likely to contribute to politics

Notes: Point estimates are coefficients from Equation 1. All specifications are estimated using OLS, include year fixed effects and (except in the first model) firm fixed effects. The first and second coefficients include contributions by the firm only. The third coefficient includes contributions by the firms and its subsidiaries. The bottom coefficient includes contributions by the firm, its subsidiaries, and its leadership (board members and management). Except for the first coefficient, all specifications include firm-level controls (whether the firm is a holding, foreign or state-owned, assets, income, and age), corporate governance controls (percent of ordinary shares owned by natural persons, concentration of ordinary shares in the hand of a firm's ultimate owners, percent of shares in free float, and largest shareholder gap), and industry fixed effects. See Table K2 in the Online Appendix for the exact variable definitions. Thicker and thinner lines represent 90 and 95-percent confidence intervals. Standard errors are clustered at the firm level. Sample size varies between 1,355 and 1,773 depending on the availability of controls and whether individual contributions are included. See Table A1 for the full set of estimates.

We repeat the analysis using a continuous outcome (log of contributions). Since the amount contributed is endogenous to the contribution decision, this specification is estimated using a two-step Heckman selection model.[38] The results imply that, conditional on making a contribution, the amount contributed by family firms is, on average, about 7.4 times the amount contributed by comparable non-family firms (Table A1 in the Online Appendix).

Our main specification employs a binary indicator of family firm status. However, at the core of our theory is the notion that *family ties* have the capacity to transmit economic and political capital. Thus, firms with stronger family control — a higher level of "familiness" — should display higher levels of political activism (**EI 2**). We estimate Equation 1 using the number of individuals with family ties — a measure of the degree to which a family is involved in the

[38]See Section 5.4 and Online Appendix Section J for details.

firm — within a firm as our main explanatory variable. Conditional on family firm status, the presence of an additional tie increases the probability of contribution by almost 1 pp (Table A2 in the Online Appendix). Lastly, family firms also have a higher probability of *individual* campaign contributions by members in leadership positions, irrespective of whether they belong to the controlling family (Table A3 in the Online Appendix).

While the result is robust to alternative operationalizations, a major threat to inference is that unobserved confounders could simultaneously affect family firm status and the probability of contributions. We address this concern by implementing a sensitivity analysis that quantifies the amount of confounding generated by such an unobserved variable that would be sufficient to explain away our results (Imbens, 2003). The analysis in Figure H1 in the Online Appendix indicates that for this to be the case the effect of an observed confounder would need to be much larger than that of all covariates included in our regression. To explain away our results, we would need a variable with almost three times the explanatory power of *shares owned by a natural person*, which is highly correlated with family firm status.[39]

5.1.2 Within-Firm Individual-Level Results

In this section, we test the individual-level implications of our theory. In particular, we study whether being a member of the controlling family in a given firm affects an individual's probability to make campaign contributions (**EI 4**), and whether this probability is increasing in her number of ties (**EI 5**). We estimate the following linear probability model:

$$\text{Contribution}_{it} = \beta \text{ Family Member}_{it} + \gamma^{\top}\mathbf{X}_{it} + \upsilon_{jt} + \epsilon_{it} \tag{2}$$

where i denotes individuals, t denotes election cycles, $\mathbf{X}_{it}$ is a vector of individual-level covariates, and υ_{jt} are firm-year fixed effects. Standard errors are clustered at the firm-year and individual level. The coefficient of interest, β, captures the effect of being a member of the controlling family

[39]See Online Appendix Section H for more details.

within a given firm on the probability of making a contribution. This estimate thus represents the difference in the political behavior of individuals with and without family ties in the same firm in a given election cycle.

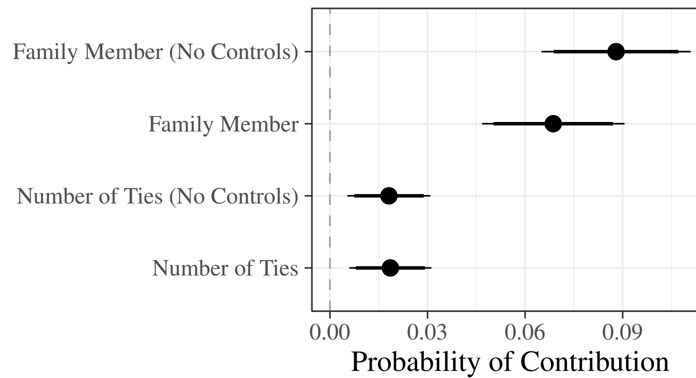

Figure 4: Individuals with family ties are more likely to contribute to politics

Notes: Point estimates are coefficients from Equation 2. All specifications are estimated using OLS and include firm-year fixed effects. The first coefficient shows the effect of being a family member. The second coefficient shows the marginal effect of a family tie. Controls include an individual's age, whether they are part of a firm's management and board of directors, the fraction of voting shares they own, and whether they worked in the public sector. See Table K3 in the Online Appendix for the exact variable definitions. N = 34,335. Thicker and thinner lines represent 90 and 95-percent confidence intervals. Standard errors are clustered at the firm-year and individual level. See Table A2 for the full set of estimates.

The results in Figure 4 show that family members are about 7 pp more likely to contribute. Estimating the same model but adding the number of ties as a predictor indicates that each additional family tie increases the likelihood of contributing by 2 pp. These results support the idea that family ties affect individual behavior and are thus the driving force behind the aggregate political behavior of firms, therefore attesting to the consistency between the firm- and individual-level implications of our theory. A sensitivity analysis of these estimates indicates that they are unlikely to be affected by confounding (Figure H2 in the Online Appendix).

5.2 Contributions as Relationships

The central element of our theory is that family firms have a comparative advantage at building long-term relationships with political actors. In this section, we test the third empirical implication of our theory: that family firms' campaign contributions to parties and to individual candidates affiliated with those parties should be more persistent over time relative to those by non-family firms (**EI 3**).

5.2.1 Persistence of Contributions

We study the persistence of contributions in two different ways. We first take a descriptive approach from the perspective of political parties. We consider pairs defined by consecutive elections and, for each election pair and each party who ran in both elections of the pair, we calculate the ratio between the number of firms that contributed to the party in both elections and the number of firms that contributed to the party in one or both of the elections.[40] For each election pair, we average these ratios across parties and firm types (family and non-family). We also consider a weighted average, where the weights are proportional to the number of firms that contributed to a party (so as to give less weight to parties to which very few firms made a contribution). In both cases, this ratio is higher for family firms, indicating more persistence or stickiness of contributions by such firms across election cycles. Specifically, contributions by family firms are about 5 percent more persistent than those by non-family firms (8.2 percent if we consider the difference in weighted averages).

[40] This measure comes from Snyder (1992).

Table 1: Overlap Across Election Cycles, by Firm Type

	Average			Weighted Average		
	Non-Family Firms (1)	Family Firms (2)	Difference (3)	Non-Family Firms (4)	Family Firms (5)	Difference (6)
2006-2010	7.15	13.06	5.91	14.05	23.13	9.08
2008-2012	11.15	16.31	5.15	15.63	26.3	10.67
2010-2014	16.91	22.16	5.25	29.91	37	7.09
2012-2016	3.08	8.86	5.78	6.81	16.06	9.25
2014-2018	2.96	5.9	2.94	8.69	14.08	5.38

Notes: Ratio between the number of firms that contributed to a party in both elections and the number of firms that contributed to a party in one or both of the elections, by family firm status. Columns 1 and 2 display simple averages. Columns 4 and 5 display weighted averages, where the weights are proportional to the number of firms donating to a party.

We also look at the issue from the perspective of firms and construct a measure of intertemporal overlap in campaign contributions. The measure is calculated as the number of parties to which a firm contributed both in election cycles t and $t-1$, divided by the number of parties to which the firm contributed in election cycle $t-1$. This number, which lies between zero and one, captures the extent to which a firm maintains its connections to parties (and to candidates affiliated with those parties) across elections, revealed by its campaign contributions. For example, if a firm contributed to parties A, B, and C in 2010 but only to parties A and B in 2014, the measure of overlap is equal to two thirds. We employ this measure as the outcome variable in the following regression model:

$$\text{Overlap}_{it} = \beta \text{ Family Firm}_{it} + \gamma^{\top}\mathbf{X}_{it} + u_t + v_j + \epsilon_{it} \tag{3}$$

where i denotes firms, t denotes election cycles, $\mathbf{X}_{it}$ is a vector of time-varying firm-level covariates, v_j are industry fixed effects, and u_t are year fixed effects. Standard errors are clustered at the firm level.

We consider the expected difference in the overlap of contributions by family firms compared to non-family firms across one election cycle (four years) and two election cycles (eight years). Contributions by family firms are 7.3 pp more likely to carry over to the next election cycle and

6.2 pp more likely to persist across two election cycles (Figure 5).[41]

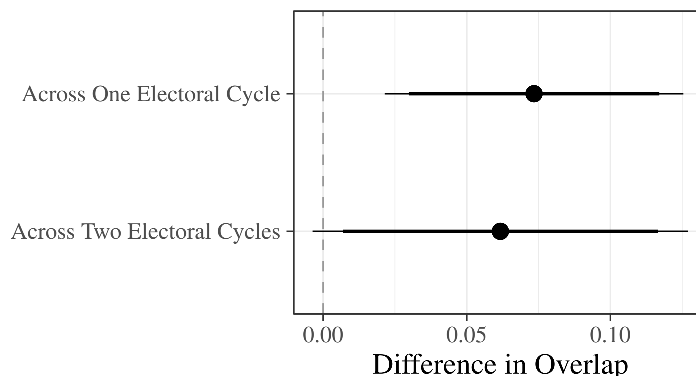

Figure 5: Overlap of contributions across election cycles

Notes: Estimates from Equation 3. All specifications are estimated using OLS, include year and industry fixed effects, and firm-level controls. The top coefficient displays the expected difference overlap of contributions of family firms relative to non-family firms across one election cycle (four years), pooling the comparisons between election cycles 2006-2010, 2008-2012, 2010-2014, 2012-2016, and 2014-2018. The bottom coefficient displays the expected difference in overlap of contributions of family firms relative to non-family firms across two election cycles (eight years), pooling the comparisons between election cycles 2006-2014, 2008-2016, and 2010-2018. Thicker and thinner lines represent 90 and 95-percent confidence intervals. Standard errors are clustered at the firm level. $N = 850$ in the top coefficient and $N = 400$ in the bottom coefficient. See Table B1 in the Online Appendix for the full set of estimates.

5.2.2 Loyalty to Specific Parties

We also study whether family firms are differentially more loyal to specific contribution targets, focusing on Brazil's three largest parties, the PT, the MDB, the PSDB, and DEM. We present results from lagged dependent variable models, interacting the lagged outcome with a family firm indicator:

$$\text{Contribution}_{i,p,t} = \beta_1 \text{ Contribution}_{i,p,t-1} + \beta_2 \text{ Family Firm}_{it} + \beta_3 \text{ Contribution}_{i,p,t-1} \times \text{Family Firm}_{it} + \gamma^\top \mathbf{X}_{it} + u_t + v_j + \epsilon_i \quad (4)$$

[41]The results are robust to controlling for the amount contributed in the previous election cycle, suggesting that persistence is not a mechanical effect driven by a firm's high level of participation in the contributions market (see Columns 2 and 4 of Table B1 in the Online Appendix).

where i denotes firms, p denotes a specific party (PT, PMDB, PSDB, DEM), t denotes election cycles, $\mathbf{X}_{it}$ is a vector of time-varying firm-level covariates, v_j are industry fixed effects, and u_t are year fixed effects. Standard errors are clustered at the firm level.

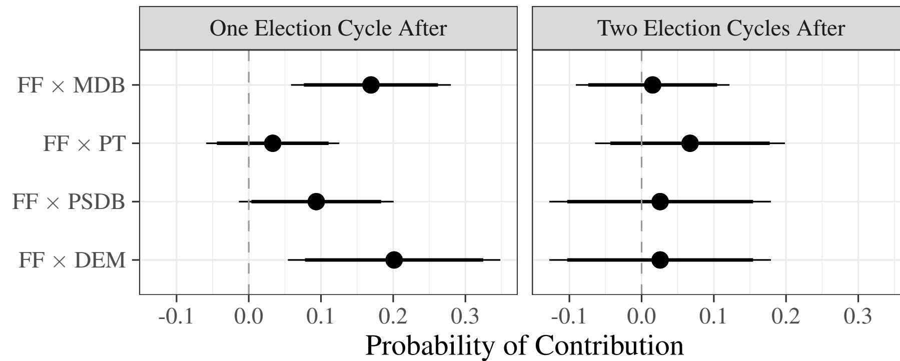

Figure 6: Persistence of contributions by family firms to specific parties across election cycles

Notes: Estimates from Equation 4. Coefficients represent the relative persistence of contributions to specific targets for family firms relative to non-family firms. Left panel: persistence across one election cycle (four years), pooling the comparisons between election cycles 2006-2010, 2008-2012, 2010-2014, 2012-2016, and 2014-2018. Right panel: persistence across two election cycles (eight years), pooling the comparisons between election cycles 2006-2014, 2008-2016, and 2010-2018. All specifications include year and industry fixed effects, and firm-level controls. Thicker and thinner lines represent 90 and 95-percent confidence intervals. Standard errors are clustered at the firm level. $N = 1,778$ in the left panel coefficient and $N = 1,033$ in the right panel. See Table B2 in the Online Appendix for the full set of estimates.

We do not find evidence that family firms are more likely to repeat contributions to the PT, Brazil's longstanding left-wing party and the one in power during most of the period we study (Figure 6). By contrast, they are more willing to do so when donating to the MDB, a largely pragmatic party that was a member of all the government coalitions during the period we study. Similarly, family firms are also more likely to make repeated contributions to DEM. However, these effects disappear when considering two election cycles.

5.3 Campaign Contributions and State-Subsidized Loans

Thus far we have established that family firms are more capable of sustaining relationships with political parties. Our theory of relational rent-seeking implies that these relationships should translate into higher rents (**EI 6**). We test this implication by focusing on preferential access to state-subsidized credit by Brazil's National Development Bank (BNDES), a form of rent-seeking in financial markets (Khwaja and Mian, 2011). The BNDES is an important supplier of long-term credit, and its loans represent more than 20 percent of credit to the private sector in the country (Lazzarini et al., 2015). As discussed in Section 3, previous research indicates that such loans are partly allocated according to political criteria — firms that contribute to winning candidates are more likely to receive BNDES loans (Lazzarini et al., 2015).[42] We focus on non-automatic loans, which mainly finance large firms and are likely to comprise a higher proportion of potentially discretionary loans. To test whether contributions by family firms increase the likelihood of obtaining a BNDES loan, we estimate the following linear probability model:

$$\text{BNDES Loan Post}_{it} = \beta_1 \text{ Family Firm}_{it} + \beta_2 \text{ Contribution}_{it} + \beta_3 \text{ Contribution}_{it} \times \text{Family Firm}_{it} + \gamma^\top \mathbf{X}_{it} + v_j + u_t + \epsilon_{it} \quad (5)$$

where i denotes firms, t denotes election cycles, $\mathbf{X}_{it}$ is a vector of time-varying firm-level covariates, v_j are industry fixed effects, and u_t are year fixed effects. Standard errors are clustered at the firm level. The coefficient of interest, β_3, captures the differential effect of contributions by family firms on the probability of receiving a BNDES loan in the two-year period following an

[42]While the BNDES is typically portrayed as a technocratic organization, the evidence suggests that it is not fully insulated from political pressures. First, as noted, the only extant rigorous study of the logic of BNDES loans finds evidence of political discretion (Lazzarini et al., 2015). This study also notes that, while the BNDES was created as an autonomous entity, its role changed in different periods of Brazilian history, following politically determined development goals. A detailed study of the role of social and political ties in Brazilian capitalism also disputes the technocratic view of the BNDES, echoing public opinion concerns about the bank selectively benefiting certain firms and groups (Lazzarini, 2011).

election.

The left panel of Figure 7 shows that family firms that contribute are 15 pp more likely to receive a BNDES loan. Given that the probability for non-family firms is 11 percent, this represents a 136 percent increase. Interestingly, family firms that fail to contribute are less likely to receive such loans — that is, they suffer a 7 pp decrease in the probability of obtaining a loan, roughly half the size of the contribution bonus.[43] These results suggest that family firms' political rents are particularly elastic to their contributions and reveal a dynamic of reciprocity whereby contributing firms enjoy a reward while those that fail to do so face a penalty.

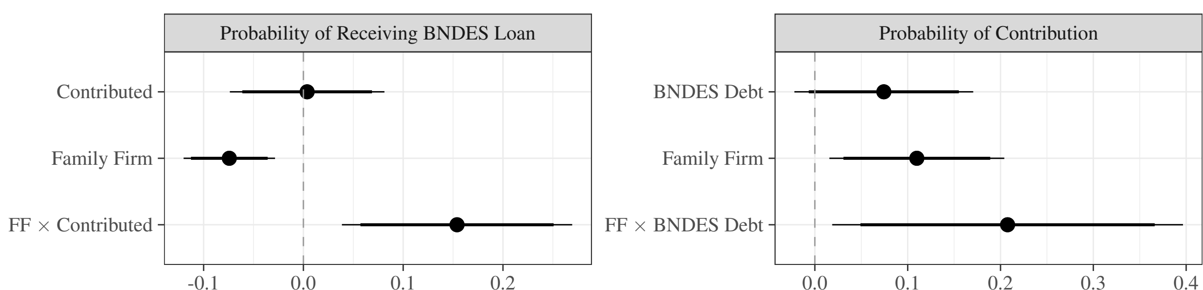

Figure 7: State-Subsidized Loans and Campaign Contributions

Notes: The left panel shows estimates from Equation 5. The right panel shows estimates from the same equation, but using probability of contribution as the outcome and BNDES Debt $\text{Pre}_{it} \times \text{Family Firm}_{it}$ as a predictor. All specifications are estimated using OLS and include industry and year fixed effects, and firm-level controls. Thicker and thinner lines represent 90 and 95-percent confidence intervals. Standard errors are clustered at the firm level. See Table C1 and Table C2 in the Online Appendix for the full set of estimates.

Next, we examine whether a firm's dependence on government loans induces campaign contributions. The estimating equation is analogous to Equation 5, but using contributions as the outcome variable and BNDES Debt $\text{Pre}_{it} \times \text{Family Firm}_{it}$ as a predictor, where the first factor of the interaction denotes receiving a BNDES loan in the four-year period prior to an election or the dependence on such loans (as measured by loan amount/assets). The results show that

[43] Larger contributions by family firms also appear to buy larger BNDES loans. While for non-family firms contribution size does not affect loan size, for contributing family firms a 1 percent increase in contribution size is associated with a 0.14 percent increase in the size of the loan they receive. Instead, family firms that fail to contribute face a penalty: they receive loans $\simeq$ 83 percent smaller compared to non-contributing non-family firms. See Columns 3-4 of Table C1 in the Online Appendix.

holding BNDES debt makes family firms more likely to make a contribution (Figure 7, right panel). Taken together, these findings suggest a feedback loop between contributions and state-subsidized credit: the prospect of receiving (or being denied) a loan induces firms to continue making contributions, reinforcing their dependence on the federal government.

5.4 Contribution Targets

We now study whether family firms direct their contributions at specific targets. We estimate Equation 1 again, using the share of a firm's contributions to a specific target as the outcome variable. Since we only observe contribution targets for firms making at least one contribution, we first estimate Equation 1 using OLS, restricting our sample to contributing firms, and also report results from a two-step Heckman selection model (Amemiya, 1985):

$$\begin{aligned} \text{Contribution}^*_{it} &= \tilde{\beta}\ \text{Family Firm}_i + \tilde{\gamma}^\top \tilde{\mathbf{X}}_{it} + \tilde{\eta}_j + \tilde{\tau}_t + u_{it}, \\ \text{Share Target}_{it} &= \begin{cases} \beta\ \text{Family Firm}_i + \gamma^\top \mathbf{X}_{it} + \eta_j + \tau_t + v_{it}, & \text{if Contribution}_{it} = 1, \\ \text{unknown}, & \text{otherwise}, \end{cases} \end{aligned} \tag{6}$$

where $\text{Contribution}^*_{it}$ is a latent (unobserved) variable such that $\text{Contribution}_{it} = \mathbb{1}(\text{Contribution}^*_{it} > 0)$, β is the effect of family firm status on the share of contributions directed to the target of interest, $\mathbf{X}_{it}$ are firm-level covariates, η_j are industry fixed effects, τ_t are year fixed effects, and $\tilde{\beta}$, $\tilde{\gamma}$, $\tilde{\eta}_j$, $\tilde{\tau}_t$ are coefficients of the latent variable equation. Standard errors are clustered at the firm level. We instrument contributions with income. This assumes that the unexpected cash flow of a firm — given the vector of controls — shapes contribution decisions but not their target.[44]

In Brazil, campaign contributions can be directed to political parties or individual candidates. The first coefficient in Figure 8 indicates that family firms allocate 5.3 pp more of their contri-

[44]See Online Appendix Section J for a more detailed discussion of the identification assumptions of the Heckman model.

bution portfolio to political parties than to candidates. A possible interpretation of this result is that in Brazil's volatile electoral environment parties are more stable entities and, as such, may serve as apt vehicles for long-term political investments. Thus, investment in parties may reflect family firms' advantage at building long-term relationships.

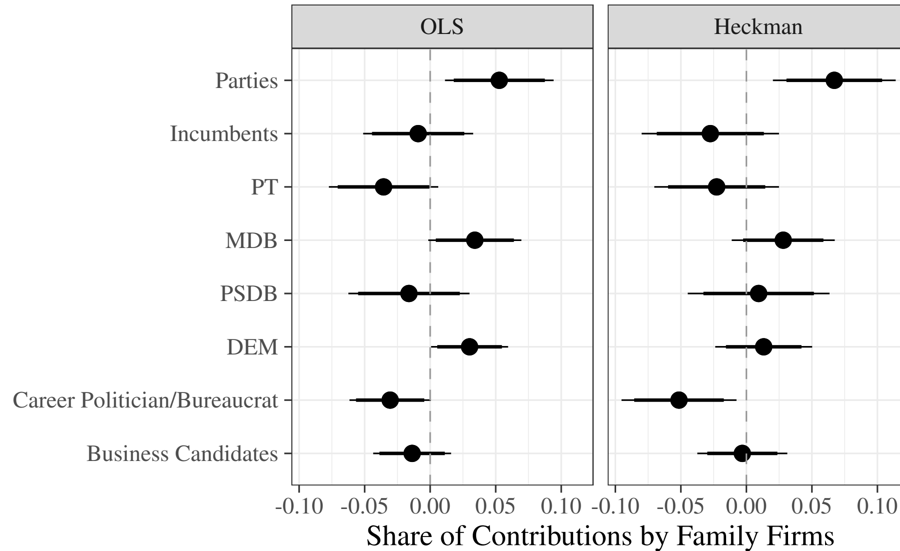

FIGURE 8: CONTRIBUTION TARGETS

Notes: Estimates from Equation 6. Specifications in the left panel are estimated using OLS and specifications in the right panel are estimated using a two-step Heckman selection model. All specifications include year and industry fixed effects. Thicker and thinner lines represent 90 and 95-percent confidence intervals. Standard errors are clustered at the firm level. $N = 990$ in the left panel coefficient and $N = 1,564$ in the right panel. See Table D1 and Table D2 in the Online Appendix for the full set of estimates.

Looking at specific parties, the third coefficient of Figure 8 shows that family firms appear less likely to direct their contributions to the PT, which held power during roughly three quarters of the period under study, until Dilma Rousseff's impeachment in 2016. Among the parties considered in this analysis, DEM is most clearly right-leaning and has a significant number of mayors and senators. The coefficient on DEM is positive in the OLS specification, but becomes zero when correcting for selection using a Heckman model. In turn, the coefficient for the MDB is positive. Given its pragmatic orientation, ideological vagueness, and stable presence in government coalitions, this party is an attractive target for donors seeking to establish relations with

politicians who are well-positioned to secure favors.[45] However, all estimates become noisier in the Heckman specification, thus suggesting that family firms' contributions do not appear to be driven by ideological considerations or strategically targeted to the party in power during our study period.

Furthermore, we distinguish between two types of individual candidates by their occupation, as reported in the electoral data. While strategic firms seeking immediate returns should contribute more to career politicians and bureaucrats (individuals whose reported occupation implies that they hold political office or a bureaucratic appointment), the results show that the opposite is true — family firms allocate between 3 and 5 pp less of their contributions to such candidates. Interestingly, family firms are not more likely to donate to business candidates, reinforcing the point that ideology does not appear to be a major driver of contributions.[46]

Finally, we probe the idea that family firms diversify their political investments. According to estimates of the Heckman model in Figure 9, family firms contribute to, on average, 2.19 more parties than non-family firms (the coefficient is smaller for the OLS specification and when we consider the effective number of parties).[47] Thus, family firms appear to invest in relations with a larger number of relatively stable political actors — again, consistent with an advantage at building relational contracts.

[45] Originally formed in opposition to the military dictatorship, the MDB has displayed ideological fluctuations and high levels of pragmatism, eventually becoming a "catch-all" party. The MDB was deeply involved in the Odebrecht corruption scandal. The company's former head of institutional relations declared that the MDB "expected the largest donations but were keenest to help the group. They were greedy, but appreciative". See *Le Monde Diplomatique*, "Brazil's Odebrecht Scandal", Oct 8, 2017.

[46] Alternatively, these null or negative effects on different types of individual candidates might mechanically reflect that family firms devote a higher share of their contributions to parties.

[47] We define the effective number of parties as $1/\sum_p s_p^2$, where the sum is over parties to which the firm or its leadership contributed, and, for each party p, s_p is the share of contributions to p.

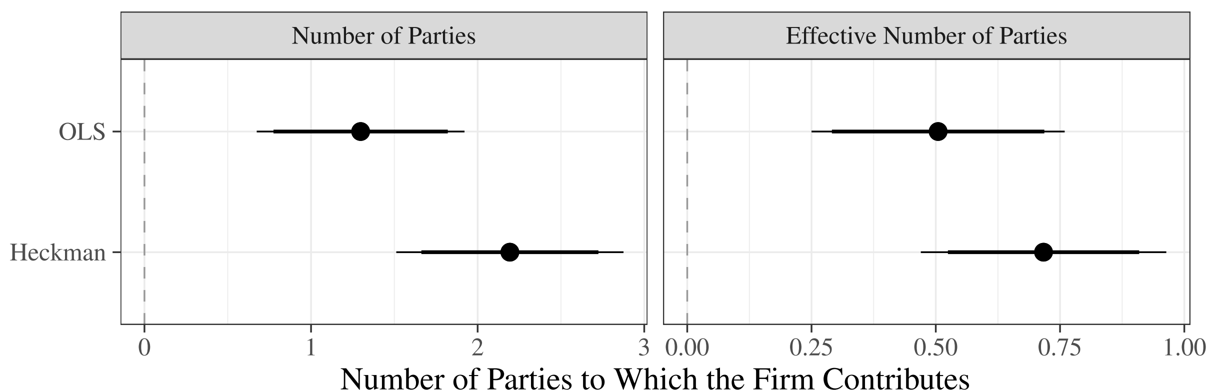

Figure 9: Number of Parties

Notes: Estimates from Equation 6. Specifications in the top row are estimated using OLS and specifications in the bottom row are estimated using a two-step Heckman selection model. All specifications include year and industry fixed effects. Thicker and thinner lines represent 90 and 95-percent confidence intervals. Standard errors are clustered at the firm level. $N = 1,079$. See Table E1 in the Online Appendix for the full set of estimates.

5.5 Family Ties and Institutional Ownership: Can the Equilibrium Be Broken?

The high prevalence and political influence of family firms documented thus far is a salient feature of politics in the region — it constitutes an equilibrium. We argue that the entry of institutional investors has the potential to break this equilibrium, either by funding new non-kin-based firms or by entering family firms and crowding out family ties.

To investigate this argument, we first show evidence that there is a negative correlation between institutional ownership and family ties. We document this correlation at the firm level by looking at firm ownership and family ties in top leadership positions using data from listed companies in Latin America's six largest stock markets — Argentina, Brazil, Chile, Colombia, Mexico, and Peru.[48] Figure 10 depicts a negative relationship between the percentage of institu-

[48]The data were obtained from each firm's prospectus filed at the time of their IPO. We consider IPOs between 2004 and 2017. An IPO is the process through which a private company goes public by selling its stocks to the general public. To identify the companies listed in Latin American stock markets, we triangulated data from Capital IQ with information from each country's securities commission (see Table K1 in the Online Appendix). We obtained

tional ownership prior to a firm's IPO and the number of family members on its board and top management.

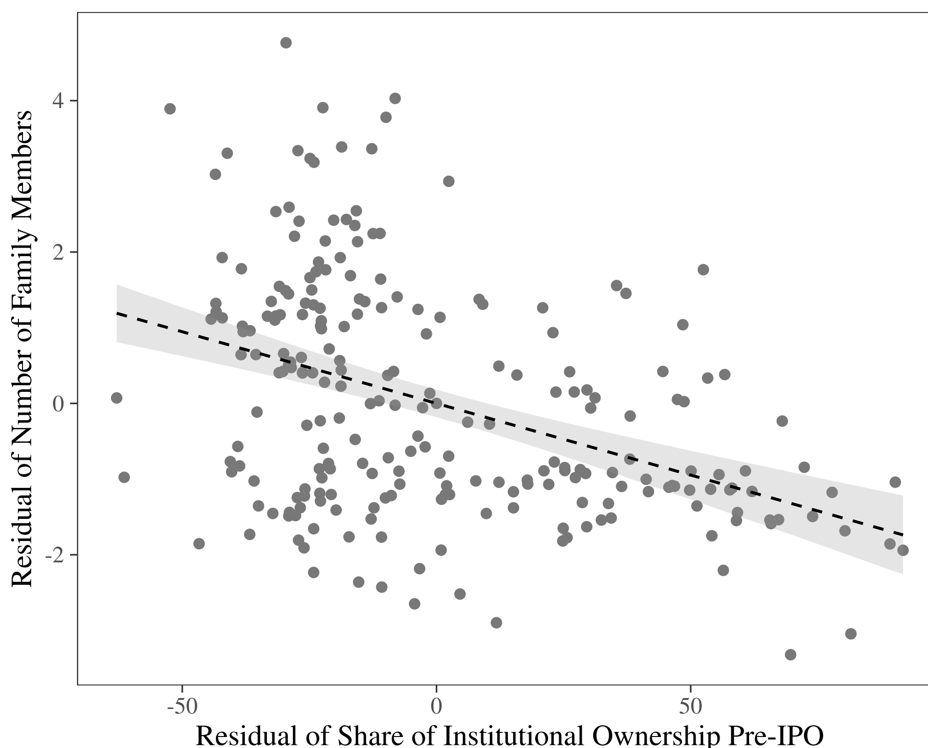

Figure 10: Institutional Ownership and Family Ties

Notes: Each dot represents a firm. The residuals are obtained by regressing the share of institutional ownership prior to a firm's IPO and the number of members with family ties in each firm's board of directors, respectively, on the following variables: (log) assets, sector, state ownership, and age, including country and year fixed effects. $\beta = -1.89$ (SE = 0.24); adjusted R-squared $= 0.31$; $N = 235$. See Table G1 in the Online Appendix for the full set of estimates.

Second, we repeat the analysis for our sample of Brazilian companies and ask whether the entry of institutional investors can crowd out family ties. Again, we compute a measure of the extent to which a firm is owned by individuals or institutions, tracking the ultimate owners of each of a firm's shares and distinguishing shares held by individuals (for example, the firm's founder or a member of the controlling family) from those held by institutions (for example,

each company's prospectus from the securities commission website or the company's investor relations website, and hand-coded the relevant variables. These documents provide a snapshot of a firm's ownership structure and its executive leadership structure while still privately held — immediately before listing their shares in public stock markets.

private equity firms, mutual funds, or pension funds). We estimate models of the form:

$$\text{Family Ties}_{it} = \beta \text{ Inst Ownership}_{it} + \gamma^{\top} \mathbf{X}_{it} + u_t + \epsilon_{it} \tag{7}$$

where Family Ties_{it} is either a count or binary measure of family ties and $\text{Inst Ownership}_{it}$ is the fraction of shares owned by institutional investors. Standard errors are clustered at the firm level.

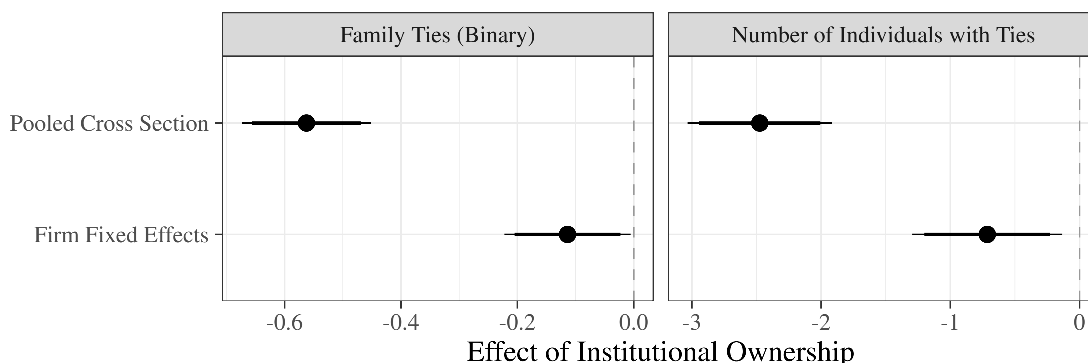

Figure 11: Entry of Institutional Investors and Family Ties

Notes: Estimates from Equation 7. All specifications are estimated using OLS. The coefficients at the top include industry and year fixed effects, and the coefficients at the bottom of each panel include firm and year fixed effects. Thicker and thinner lines represent 90 and 95-percent confidence intervals. Standard errors are clustered at the firm level. $N = 2,143$ in models with firm fixed effects and $N = 1,766$ in models with firm-level controls. See Table F1 in the Online Appendix for the full set of estimates.

The estimates in Figure 11 imply that going from 0 to 100 percent of institutional ownership is associated, on average, with 2.5 fewer family ties. These cross-sectional estimates reflect the fact that such investors may simply fund new companies or invest in those without family ties (consistent with the pattern in Figure 10). We also employ a fixed effects estimator that exploits changes in ownership type over time within a firm. The results of this estimation give credence to the idea that the entry of institutional investors has the capacity to crowd out the prevalence of family ties. The smaller magnitude of the fixed effects coefficients may reflect the fact that the

entry of such investors[49] does not typically imply a complete takeover.[50] All told, these results support the idea that the entry of institutionalized investors may be a driver of more modern forms of corporate governance in a context traditionally characterized by hierarchical practices (Puente, 2020).

6. Conclusion

Classic work in political science sought to identify what actors wield more influence in the political process (Dahl, 1961; Lindblom, 1977; Mills, 1956). Recent studies indicate that business power affects policy outcomes in Latin America and elsewhere (Culpepper, 2010; Fairfield, 2015; Szakonyi, 2020). Studying a context in which campaign contributions are important in both magnitude and the material returns they provide to donors, we show that a specific type of actor — family firms — displays high levels of political activism.

This article provides the first systematic account of the political behavior of family firms. We argue that family firms' political activism stems from their superior capacity to build and sustain relationships with politicians, which emanates from the properties of families as a vehicle for the intergenerational transmission of capital. Employing previously untapped firm-level data on family ties and campaign contributions, we show that family firms in Brazil are more likely to make campaign contributions and provide evidence that such contributions can be construed as relationships. The rich micro-data we employ allow us to document that individuals in leadership positions with family ties within firms are also more politically active, evincing that family

[49] A relevant example of institutional investors that has gained increasing importance in Latin America during the last few decades are private equity investors. There are several reasons why family firms may open a company's capital to such investors. These include cashing out their holdings to diversify their wealth, needing equity capital to grow, and losing control after a restructuring process. Often the role of private equity investors extends beyond providing capital, entailing an active involvement in a firm's governance and management. Shares typically grant political rights and give their holders a say on the appointment of management and board members, potentially encouraging the replacement of family members by professionals.

[50] Indeed, institutional investors may partner with controlling families or might face resistance. The fixed effects estimates are also likely smaller due to the short time period considered and the fact that the average increase in institutional ownership in our sample is relatively small (a 0.6 pp in a two-year period).

ties are the driving force behind family firms' distinctive political behavior. Finally, we show that family firms are more likely to obtain state-subsidized loans, indicating that their political activism allows them to capture rents.

Having documented that institutional ownership is correlated with the prevalence of family ties and that a firm's "familiness" predicts campaign contributions, a natural question is whether and how the influence of family firms might be limited. A first path to reform would seek to address the consequences of this phenomenon. Indeed, some observers believe that the regulation of campaign finance is a promising avenue to reduce the influence of money in politics.[51] These hopes, however, might prove unwarranted: such policies may be rather blunt instruments to reduce the influence of family firms, which are better able to substitute individual for corporate campaign contributions (Balán et al., 2021). Instead, by presenting evidence that capital market development and the entry of institutional investors have the capacity to displace family ties in firms' leadership positions, this article suggests that addressing the causes of the phenomenon may be a more effective path to reform.

Overall, this article documents several novel facts that provide empirical support to the claims of recent studies of Latin American capitalism (Schneider, 2013). From a methodological standpoint, our article illustrates the importance of using micro-level data to study the behavior both of firms and of individuals within firms.[52] In doing so, we adopt and expand on the "firm's-eye view" endorsed by students of comparative capitalism (Hall and Soskice, 2001; Schneider, 2013). This approach could be applied to the study of family firms in other developing as well as developed countries. Lastly, we provide evidence that political-economic equilibria typically deemed resilient by this literature are not necessarily static.

[51]See, for example: Cagé (2020); Casas-Zamora and Zovatto (2016).

[52]Recent examples using data from Brazil include Colonnelli et al. (2020a) and Colonnelli et al. (2020b).

Appendix

A. Main results

Table A1: Family Firms and Campaign Contributions

	Probability of Contribution by			
	Firm (1)	Firm (2)	Firm + Subsidiaries (3)	Firm + Leadership (4)
Family Firm	0.201***	0.147***	0.159***	0.113***
	(0.035)	(0.043)	(0.044)	(0.033)
Assets (log)		0.015**	0.024***	0.023***
		(0.007)	(0.008)	(0.009)
Income (log)		0.011***	0.021***	0.019**
		(0.004)	(0.004)	(0.007)
Age (log)		0.044**	0.016	−0.012
		(0.019)	(0.020)	(0.019)
Foreign		0.129	0.116	−0.076
		(0.099)	(0.088)	(0.078)
State Owned		−0.109**	−0.209***	0.200***
		(0.054)	(0.056)	(0.061)
Ordinary Shares Owned by Natural Person (%)		−0.055	0.008	0.007
		(0.060)	(0.064)	(0.054)
Concentration of Ordinary Shares (Herfindahl)		0.064	0.049	−0.022
		(0.059)	(0.062)	(0.063)
Ordinary Shares in Free Float		0.211**	0.221**	0.180**
		(0.088)	(0.091)	(0.076)
Preferential Shares (binary)		0.007	−0.005	−0.012
		(0.041)	(0.042)	(0.039)
Largest Shareholder Gap		0.238**	0.306***	0.201**
		(0.106)	(0.102)	(0.099)
Control Outcome Mean	0.148	0.179	0.263	0.570
Observations	1355	1095	1095	1773
Adjusted R^2	0.053	0.188	0.232	0.132
Year FE	✓	✓	✓	✓
Industry FE		✓	✓	✓

Notes: Estimates from Equation 1. All specifications are estimated using OLS and include year fixed effects. Column 1 includes no controls. Column 2 includes firm-level controls. Column 3 includes contributions by the firms and its subsidiaries. Column 4 includes contributions by the firm, its subsidiaries, and its leadership (board members and management). Columns 2-4 include industry fixed effects. Standard errors clustered at the firm level included in parentheses. The smaller sample in columns 2-3 reflects the availability of controls. The larger sample in Column 4 reflects adding contributions by a firm's leadership in years 2016 and 2018. We discuss these results in Section 5.1.1.
$^{***}p < 0.01$; $^{**}p < 0.05$; $^{*}p < 0.1$

Table A2: Private Contributions by Individuals

	Probability of Contribution			
	(1)	(2)	(3)	(4)
Family Member	0.088***	0.069***	0.045***	0.025
	(0.012)	(0.011)	(0.016)	(0.016)
Number of Family Ties			0.018***	0.019***
			(0.007)	(0.006)
Manager		−0.015***		−0.015***
		(0.005)		(0.005)
Manager and in Board of Directors		0.021**		0.020**
		(0.008)		(0.008)
Fraction of Voting Shares Owned		0.127***		0.128***
		(0.029)		(0.029)
Worked in Public Sector		0.049***		0.049***
		(0.010)		(0.010)
Age (log)		0.075***		0.075***
		(0.010)		(0.010)
Control Outcome Mean	0.064	0.062	0.064	0.062
Observations	38192	34335	38192	34335
Adjusted R^2	0.088	0.094	0.089	0.095
Firm × Year FE	✓	✓	✓	✓

Notes: Estimates from Equation 2. All specifications are estimated using OLS and include firm-year fixed effects. Columns 2 and 4 include individual-level controls. The restricted sample size in columns 2 and 4 reflect the availability of controls. Standard errors clustered at the firm-year and individual level included in parentheses. We discuss these results in Section 5.1.2.
$^{***}p < 0.01$; $^{**}p < 0.05$; $^{*}p < 0.1$

B. Prevalence of Family Firms by Region

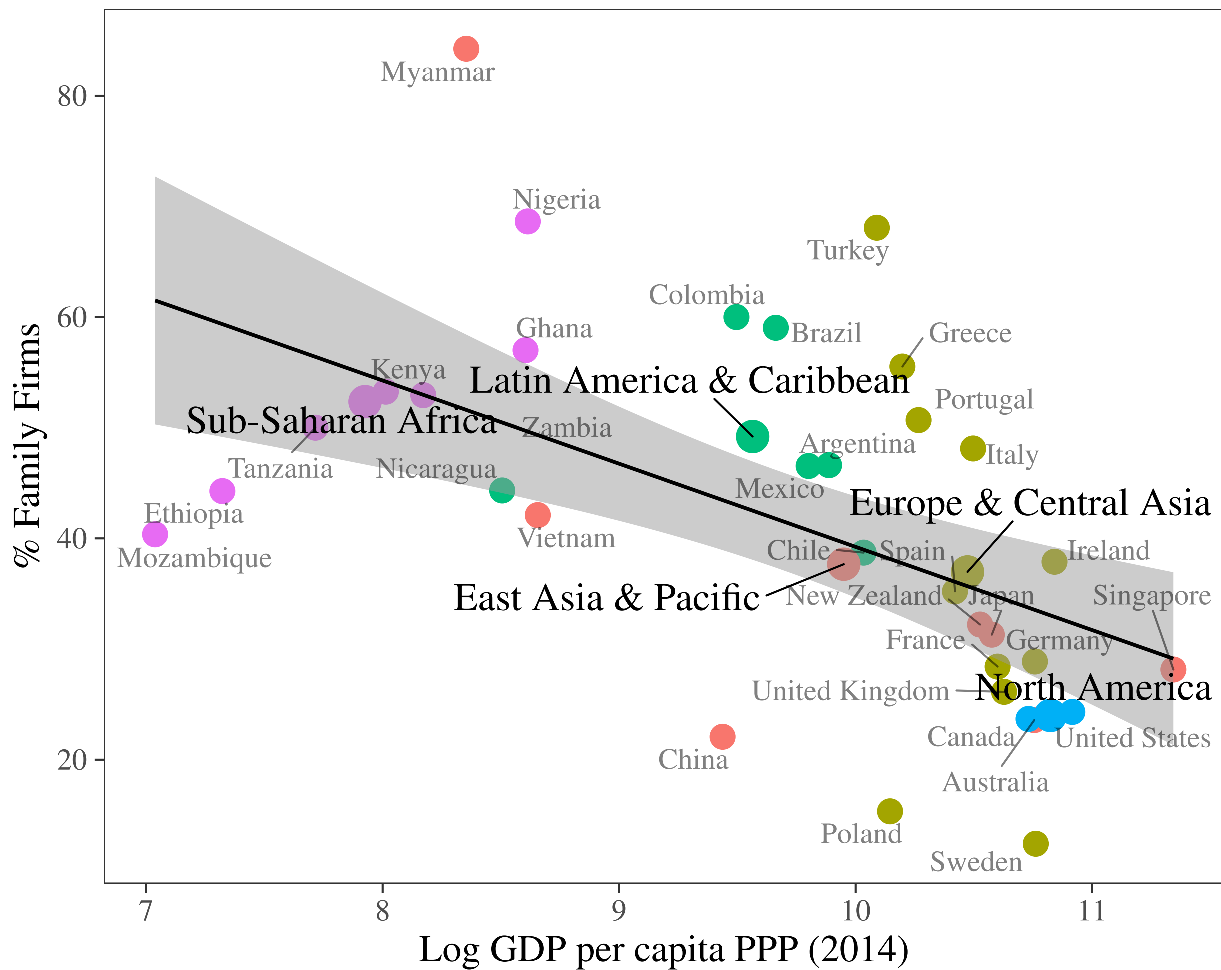

FIGURE B1: FAMILY FIRMS AND GDP PER CAPITA

Notes: Regression estimated by OLS. The shaded region represents 95 percent confidence intervals. Colors represent regions of the world. A family firm is defined as one that is either owned by their founder or one in which both the owner and the CEO are part of a family. Sources: World Bank and World Management Survey (Bloom et al., 2015). $N = 33$.

C. Descriptive Statistics

Table C1: Brazil's top ten contributing firms in 2014

Donor Name	Industry	Amount[1]	Assets[1]	Govt. Bank Loans[1]
JBS[2]	Meat processing	76.109	82,044	0
Gafisa	Real estate	25.083	7,206	0
Vale[2]	Metals and mining	17.756	309,415	7,049
Braskem[2]	Petrochemical	15.176	49,422	1,608
BTG Pactual	Financial services	14.970	157,712	0
Ambev	Brewing	13.766	72,143	1,554
Gerdau	Steel	11.088	63,042	88
Itaú Unibanco	Private sector banking	11.007	1,208,702	0
Cosan	Bioethanol, sugar and energy	9.900	27,104	0
Hypera	Pharmaceuticals	6.326	13,888	30

Notes: The table shows the ten largest donors during the 2014 election cycle in our sample. The amount contributed is the sum of all contributions by the firm and its subsidiaries. Government bank loans is the total value of discretionary loans by Brazil's National Development Bank (BNDES) received by the firm since the last national election.
[1] Millions of US dollars.
[2] BNDES is a major shareholder.

Table C2: Sample means of main variables by family-firm status

	Sample Means	
	Family Firms	Non-family Firms
Firms that Contributed (%)	42.5	18.7
Contributions by the Firm	662,578.9	247,287.4
	(5,248,639)	(1,292,055)
Contributions by the Firm	1,601,370	779,957.7
+ Leadership	(7,819,550)	(3,311,885)
Age	41.6	32.3
	(28.8)	(29.1)
Number of Individuals with Ties	3.3	0.3
	(2.2)	(1.4)
Board + Top Management Size	12.6	13.5
	(6.8)	(10.2)
Assets (log)	20.4	19.4
	(2.8)	(4.5)
Income (log)	19.8	19.1
	(3.1)	(4.6)
Ordinary Shares Owned	61.6	25.1
by Natural Person (%)	(28.5)	(34.4)
Number of Firms	237	356

Note: Standard deviations in parentheses.

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