Family Ties as Corporate Power

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Abstract

Policies interact with underlying social organizations, which can deflect their intended goals. One example is legislation aimed at curbing business influence. Can campaign finance regulation reduce the political power of economic actors? We identify a factor that may hinder its effectiveness: the social structure of organizations. We argue that such regulation generates cooperation dilemmas within firms' leadership and propose that a specific organizational feature—family ties—can help resolve them. We evaluate this argument by studying a ban on corporate contributions in Brazil, using granular data on family ties in publicly traded firms. We show that, following the ban, members of firms' controlling families substituted individual for corporate contributions. Moreover, we document peer effects in the contributions of family members, suggesting that family ties are a channel of political influence. These bifurcated effects illustrate how organizational structure can be a source of de facto power and offer a cautionary note to policymakers.

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Replication files are available in the JOP Dataverse (https://dataverse.harvard.edu/dataverse/jop). The empirical analysis has been successfully replicated by the JOP replication analyst. Supplementary material is available in the online appendix.

Policies invariably interact with underlying social organizations, which can deflect their intended goals. One example is legislation aimed at curbing business power. Can campaign finance regulation reduce the political influence of economic actors? Business interests routinely shape policy outcomes across both developing and developed countries (Fairfield, 2015; Szakonyi, 2020; Zingales, 2017). To counteract this influence, scholars and activists have increasingly advocated for the regulation of corporate campaign finance. These policies are typically justified on egalitarian or anti-corruption grounds (Cagé, 2020; Dawood, 2015; Dotan, 2003; Pasquale, 2008; Sunstein, 1994). Currently, forty-eight countries prohibit corporate campaign contributions to political parties (International IDEA, 2025).[1] Despite vocal advocacy in favor of such regulation,[2] its effects are still not well-understood (Baltrunaite, 2020; Cagé, Le Pennec and Mougin, 2024).

In this article, we identify a new factor that may hinder the effectiveness of campaign finance regulation—the internal structure of the organizations whose behavior it seeks to change. We argue that bans on corporate contributions create a collective action problem among shareholders. In many contexts, such as the one we study, campaign contributions are best understood as long-term investments in relationships with politicians (Samuels, 2001). These political investments are costly, but generate benefits for all shareholders—such as subsidized loans, favorable regulation, or procurement contracts. Once corporate contributions are prohibited, shareholders may still contribute privately and capture some of these benefits, but cannot prevent others from free-riding. By introducing a cooperation dilemma that threatens the continuity of political donations, bans on corporate contributions constitute a negative shock with the potential to reduce firm value.

We argue that family ties within firms help resolve this collective action problem by facilitating cooperation. Research across disciplines shows that kinship can support collective action in the face of cooperation dilemmas (Enke, 2019; McNamara and Henrich, 2017). We

[1] Forty-two countries have prohibited corporate donations to candidates. See International IDEA (2025).

[2] For example, Cagé (2020, p.293) writes: "In many countries, for excellent reasons, private corporate donations to parties and election campaigns are prohibited. Recently, as we have seen, they have even been outlawed in Brazil, a country that cannot be said to be in the forefront of the struggle for democratic equality. I think that such bans should be introduced wherever they do not yet operate."

study this characteristic of family ties in a strategic setting where the need for cooperation is heightened by a negative shock affecting family members. We further propose that such shocks activate norms of familial cooperation, consistent with recent evidence that negative shocks can strengthen norms (Gelfand, 2019; Harrington and Gelfand, 2014).

We evaluate this argument by studying the effects of a ban on corporate campaign contributions in Brazil, where in 2015 the Supreme Court prohibited corporate donations following a major corruption scandal. In Brazil, campaign contributions have long served as a primary instrument of corporate political strategy (Schneider, 2010*a*). Before the ban, the majority of campaign contributions were corporate contributions (Mancuso, 2015).

We study the effects of this policy on the political behavior of family firms, the most common type of firm in the developing world (La Porta, Lopez-De-Silanes and Shleifer, 1999). Family firms are especially prevalent in Latin America, where they have been described as an endemic feature of capitalism (Schneider, 2013). Previous research shows that family firms are less productive (Bennedsen et al., 2007) and more likely to engage in rent-seeking (Morck and Yeung, 2004). In Brazil, they are particularly active political actors and derive substantial benefits from their political contributions (Balán, Dodyk and Puente, 2022). Prior to the ban, nearly 53 percent of corporate campaign contributions in our sample came from family firms.[3]

We test our argument using a three-pronged approach, combining firm- and individual-level analyses. Leveraging a newly collected dataset of publicly listed companies responsible for approximately 16 percent of total campaign contributions before the ban and accounting for over 50 percent of Brazil's GDP, we first show that family firms that were politically active before the ban substituted individual for corporate contributions. Specifically, a 1 percent increase in pre-ban corporate donations in a family firm is associated with a 0.21 percent increase in post-ban individual contributions. Second, at the individual level, we implement a difference-in-differences design and find that, following the ban, members of controlling families in hitherto politically active family firms were nearly 4 percentage points more likely to contribute as private citizens compared to non-family members—a 47 percent increase. Finally,

[3]This includes contributions by the firm and by individuals in leadership positions.

we document the presence of peer effects among individuals linked by family ties within firms, lending credence to the notion that such ties transmit influence and help overcome collective action problems. Together, our findings indicate that the ban created a wedge in political influence, empowering important economic actors who were able to circumvent regulation seeking to limit their power thanks to their collective action capacity. In doing so, they reveal an unintended consequence of the reform.

This article contributes to several strands of scholarly work. First, we add to the literature on business power (Bombardini and Trebbi, 2025; Culpepper, 2010; Fairfield, 2015; Lindblom, 1977; Szakonyi, 2020) by identifying family firms as actors that wield significant political influence.[4] We uncover the organizational foundation of this advantage by tracing the political behavior of family firms to the level of kinship ties. By identifying family ties as a source of corporate power, our findings advance the development of a "political theory of the firm" (Zingales, 2017) and offer micro-level evidence on the mechanisms underpinning the persistence of family firms as a prevalent feature of capitalism in the developing world (Schneider, 2013).

Second, our findings contribute to the literature on campaign finance regulation (Scarrow, 2007) by identifying a condition that can render these policies less effective. Recent studies document mostly salutary effects of contribution limits: stricter limits increase political competition (Avis et al., 2022), while looser limits increase public contracts assigned to top donors (Gulzar, Rueda and Ruiz, 2022). However, recent work also highlights that such reforms can produce unintended consequences. For example, Cammett, Novaes and Tuñón (2024) show that the spending limits introduced by the reform we study increased the electoral performance of one of Brazil's main Evangelical parties. Still, the effects of corporate contribution bans remain less well-understood. Existing research has examined how these policies affect politicians' behavior (Cagé, Le Pennec and Mougin, 2024; Peveri, 2024), but their impact on firm behavior has received comparatively less attention. One exception is a study showing that such bans can erode firms' advantage in securing procurement contracts (Baltrunaite, 2020). We extend this line of research by studying the heterogeneous effects of these bans across firm types

[4]Existing studies of family firms have primarily focused on economic outcomes (Bertrand and Schoar, 2006).

and showing how policy can interact with organizational structure, shaping political behavior.

Third, this article contributes to research on how corporate political activity is shaped by firms' internal dynamics. Most prominently, students of American politics have focused on the relationship between employers, workers, and political action committees (PACs). Recent studies show that employers influence employees' political participation (Hertel-Fernandez, 2017), that employees tend to contribute to PACs supported by their company (Stuckatz, 2022), and that ideological heterogeneity among employees limits their willingness to contribute when firms donate to PACs aligned with ideologically opposing parties (Li, 2018). By contrast, we shift the focus to the behavior of board members and top executives. Building on the idea that certain types of social ties may matter more than others (Kuchler and Stroebel, 2021), we focus on a specific kind of tie—family ties—and study its role in the transmission of political influence within firms.

We also contribute to a classic, yet recently reinvigorated, debate on whether kinship-based institutions foster or hinder economic and political development (Alesina and Giuliano, 2011; Banfield, 1958; Fukuyama, 2011; Henrich, 2020; Schulz, 2022; Schulz et al., 2019).[5] A key point supported by both theory and empirical evidence is that family networks facilitate cooperation within the boundaries of the kin group (Enke, 2019; McNamara and Henrich, 2017). That is, kin-related individuals have a comparative advantage in collective action, which can be politically consequential. For example, Naidu, Robinson and Young (2021) show that families with higher network centrality were more likely to participate in the 1991 Haiti coup. Similarly, Bandiera, Larreguy and Mangonnet (2024) show that families with higher network centrality benefited from land redistribution during Paraguay's dictatorship.[6] In contrast to most of this literature, we shift the focus to kinship-based *economic* institutions and show that they can limit the effectiveness of programmatic reform. By studying the role of family ties in a high-stakes, strategic setting, we identify the conditions under which familial collective action is more likely.

[5]In contrast to work documenting negative effects of kinship on political development, Wang (2022) shows that kinship networks can facilitate state-building when they are geographically dispersed.

[6]The literature on family and politics has largely focused on political dynasties in the context of succession and electoral competition. See Coppenolle and Smith (2022).

Finally, we contribute to the literature on the sources of institutional weakness—defined as the gap between institutional goals and effective outcomes (Brinks, Levitsky and Murillo, 2019)—and on the persistence of elite political power in the face of reforms seeking to curtail it (Fresh, 2024). In this regard, our findings reveal a paradox: while the reform succeeded in achieving its immediate goal—prohibiting corporate contributions—it triggered an unintended, bifurcated response driven by the organizational characteristics of the actors whose behavior it sought to change. In doing so, our paper adds a more explicitly political bent to a growing body of research showing that social organizations can deflect the intended goals of public policy (Ashraf et al., 2020; Bau, 2021; Moscona and Seck, 2024; Nunn, 2022). Our results thus highlight a critical yet overlooked factor underpinning institutional weakness: organizational structure as a source of de facto power.

How Family Ties Help Solve Collective Action Problems Within Firms

While firms solve cooperation problems in contracting and market exchange (Coase, 1937; Williamson, 1973), it has long been recognized that they face a range of cooperation and agency problems (Alston and Gillespie, 1989; Jensen and Meckling, 1976; March, 1962; Mookherjee and Reichelstein, 2001). At the core of corporate governance lies the classic agency problem between ownership (shareholders) and control (managers) (Bearle and Means, 1932). Such problems also arise in the domain of corporate political activity. For example, access-seeking PACs have been shown to face collective action problems when trying to induce donations from company employees (Li, 2018).

We argue that a specific organizational feature of firms—*family ties*—helps individuals cooperate in the face of collective action problems. We examine this feature in a strategic setting in which firms face a policy change aimed at curtailing their political advantage.

In our context, corporate campaign contributions secure substantial material benefits for

corporate donors. Campaign donations are a collective good that increases firm value, benefiting all shareholders. We argue that a ban on corporate contributions creates a collective action problem. By foreclosing the possibility of using the corporation as a vehicle for contributions and presenting executives and shareholders with the decision of whether to contribute individually, each individual confronts a dilemma. Whoever contributes can appropriate a fraction of the collective good proportional to their shares. Yet, since benefits accrue to all members, others can free-ride on that contribution. Thus, any individual may prefer not to contribute if others do. In other words, the ban turns individual contributions into *strategic substitutes*.

Building on convergent lines of research across disciplines, we propose that family ties have the capacity to mitigate this problem. Individuals tend to restrict costlier forms of cooperation to close relatives (Hamilton, 1964; Henrich and Henrich, 2007; Smith, 1964).[7] Kin-related individuals display higher levels of in-group cooperation (Enke, 2019), favoritism (Akbari et al., 2020), and coordination (Jia et al., 2021; McNamara and Henrich, 2017). Kin networks provide social insurance, facilitate exchange and resource pooling, and contribute to the provision of public goods (Cox and Fafchamps, 2007). Beyond genetic relatedness, cooperation among family members is also sustained by kinship norms (McNamara and Henrich, 2017). While cooperation in large-scale societies is supported by impersonal enforcement mechanisms, cooperation within the family is furnished by "moral obligations and reputational incentives that discourage cheating and free riding" (Greif and Tabellini, 2010, p.136). Because of strong kinship norms among family members, we predict that a ban on corporate donations will have a differential effect on individuals with kinship ties, increasing their political activism.

In the context of firms, family ownership solves the classic agency problem between owners and managers by appointing family members to top leadership positions. However, it creates a new agency problem between shareholders who belong to the controlling family and those who do not. These have been termed Agency Problem I and Agency Problem II, respectively (Villalonga et al., 2015). By inducing this partition, family ownership shapes the ability of

[7] In his seminal work on the economic analysis of the family, Becker (1974) proposed that families are characterized by altruism: the utility of each family member is affected by the utility of other family members, leading to the internalization of externalities.

different groups within the firm to solve cooperation dilemmas. Specifically, we contend that individuals in the controlling family can more easily solve the cooperation problem created by the ban compared to individuals outside the controlling family.

As a second step of the argument, we couple the notion of familial cooperation with insights from recent work showing that social norms can be tightened by negative shocks (Gelfand, Harrington and Jackson, 2017; Gelfand, 2019). In our context, the ban on corporate contributions constituted a negative shock affecting the value of the firm and should therefore strengthen norms of familial cooperation—which may not operate in the absence of a collective action problem. We thus predict that contributions by family members should become *strategic complements* after this policy.[8] Importantly, strategic complementarity entails influence in the contribution behavior of individuals linked by family ties. Indeed, there is ample evidence that networks help diffuse social and political behavior, particularly in collective action settings (Eubank, Kronick et al., 2021; Larson et al., 2019; Naidu, Robinson and Young, 2021; Nickerson, 2008; Steinert-Threlkeld, 2017). Our argument contributes to this body of work by specifying the conditions under which cooperation through family networks is more likely.[9]

We thus contend that the ban on corporate contributions constituted a common shock that, while affecting all individuals in the same environment, should induce a differential strategic response by family and non-family members.[10] Empirically, the argument yields two testable implications:

[8] In Supporting Information (SI) Section B, we formalize this argument with a theoretical framework in which contributions create value for the firm. The model illustrates how regulation banning corporate contributions changes the behavior of different types of individuals within firms. The payoff for an individual who is not a member of the controlling family is given by: *(i)* the share of the firm's value that they internalize, *(ii)* individual incentives (e.g., ideology), *(iii)* social incentives, and *(iv)* a cost term. The utility of family members is identical in all respects except that they internalize the utility of other family members by a factor α, which captures the strength of the kinship bond. We argue that the ban on corporate contributions increases the value of this parameter. This change in α captures stronger kinship norms in the face of negative shocks. The ban *(i)* creates a free-riding incentive, lowering the magnitude of firm peer effects, but, due to an increase in α, *(ii)* increases family members' baseline level of contributions and family peer effects.

[9] Larson (2021, p.98) writes: "Careful theory should pin down not only what a mechanism might be, but also, ideally, when it would be observed to operate."

[10] Note that our argument is about a specific type of tie—family ties—as opposed to network structure (e.g., Siegel (2009)) and does not rely on an information problem. See SI Section C.2, where we benchmark the effect of family ties against alternative networks within the firm.

- **Substitution:** After the ban, members of the controlling family in previously politically active firms become more likely to make campaign contributions as private citizens, compared to individuals who are not part of the controlling family (**EI 1**).

- **Strategic complementarity:** Contributions by family members become strategic complements after the ban. That is, the probability of a given family member contributing should increase in response to the contributions of other family members (**EI 2**).

Background

Electoral Competition and Campaign Finance

In Brazil—a federal, presidential, multi-party democracy—two institutional factors make campaigns particularly expensive. First, legislative candidates are elected through an open-list PR system, which allows citizens to vote for individual candidates. Second, candidates typically raise their own funds, as parties are organizationally weak and public campaign financing is limited (Bourdoukan, 2010).[11] As a result, elections in Brazil are among the costliest in the world.[12]

Campaign donations are an important instrument of corporate political strategy (Schneider, 2010*b*). Here, we describe their logic in Brazil prior to the Supreme Court ban on corporate contributions. Before the 2015 ban, corporate donations were legal and contribution limits were loose.[13] Another factor contributing to the importance of campaign donations was the absence of an economy-wide peak association. As a result, corporate campaign contributions became a key channel of political influence (Mancuso, 2015).

In Brazil, campaign donations accrue important benefits to donors. While in the United States campaign contributions have been shown to yield no returns for the average firm (Fowler,

[11] However, this changed after the ban on campaign contributions. Since the Car Wash scandal, the *Fundo Partidário* (Public Party Fund) has become an increasingly important source of public financing for political parties (Paz, 2018).

[12] *Wall Street Journal*, 5/10/2017.

[13] See Law 9504/1997.

Garro and Spenkuch, 2020), donations in the developing world typically secure legislation, regulatory favors, or access to state bank loans (Szakonyi, 2020). Firms in Brazil are no exception: they are more likely to obtain government contracts (Boas, Hidalgo and Richardson, 2014), preferential access to finance (Claessens, Feijen and Laeven, 2008), and state-subsidized credit (Lazzarini et al., 2015), and to perform better in the stock market (Claessens, Feijen and Laeven, 2008).

The Ban on Corporate Campaign Contributions

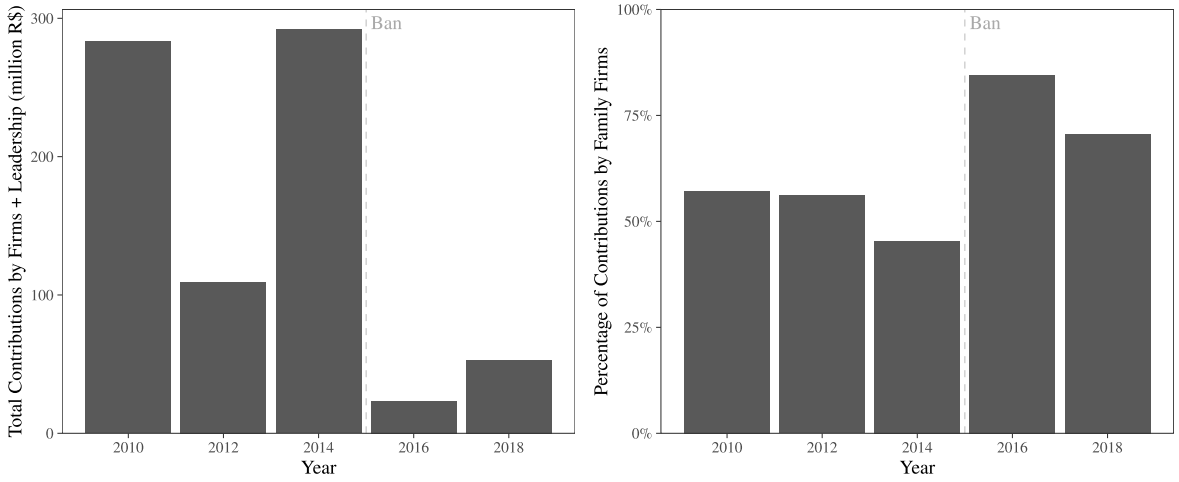
In 2011, the Brazilian Bar Association filed a petition—a "Direct Action of Unconstitutionality," known as ADI-4650—before the Brazilian Supreme Court, challenging the legality of corporate contributions. The petition argued that Law 9.504 violated the principle of political equality and gained popular support following Operation Car Wash (*Operação Lava Jato*), the largest corruption scandal in the country's history.[14] The Supreme Court ruled in favor of the petition in September 2015, banning corporate contributions.[15] According to the Court's leading opinion, corporate contributions were not a matter of freedom of expression, as they were not ideological but instead aimed at establishing ties with politicians—thus enabling corporate capture of politics.[16] As shown in Figure 1, the ban was effective in achieving its immediate goal of reducing the amount of money in politics: total contributions by firms and by individuals in firms' leadership dropped by nearly a factor of ten.

[14]The investigation revealed a major corruption scheme involving Petrobras and large construction companies in Brazil. The investigation uncovered more than $2 billion in bribes and led to the conviction of key figures from Brazil's major political parties.

[15]Shortly after the ruling, Congress attempted to legalize corporate contributions to parties, but President Dilma Rousseff vetoed the provision. The new law imposed stricter limits on individual contributions. See Law 13.165 and Avis et al. (2022).

[16]Brazilian Supreme Court, 09/17/2015.

Figure 1: Total contributions and percentage of contributions made by family firms (2010–2018)



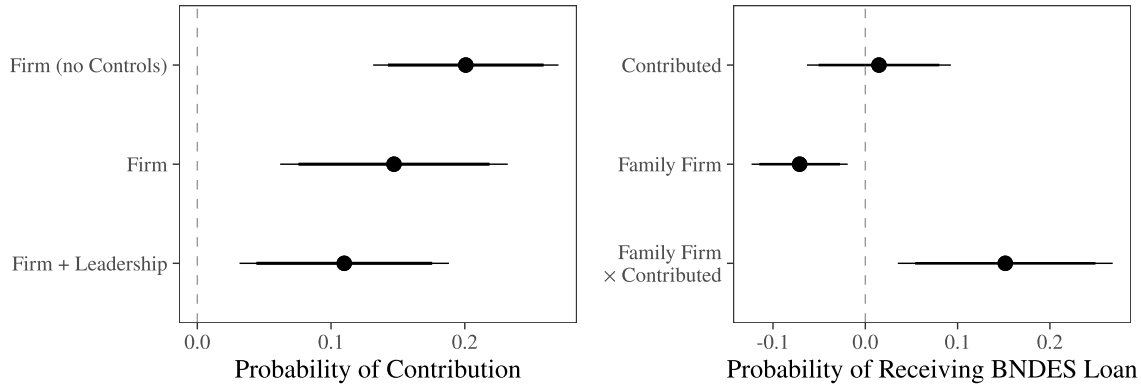
Notes: Left panel: average contributions by firms and their leadership (2010–2018) in Brazilian Reals. Right panel: percentage of contributions made by family firms (2010–2018).

The Import of Family Firms

Family firms are the most common corporate structure in the developing world and a staple of capitalism in Latin America (Schneider, 2013). They are long-lived, exhibit lower productivity, and have a comparative advantage in rent-seeking (Morck and Yeung, 2004; Bennedsen et al., 2007; Villalonga and Amit, 2020). In Brazil, they are prominent political actors: they display high levels of political activism and derive substantial benefits from their contributions. Before the ban, roughly 53 percent of corporate contributions in our sample—described in the next section—came from family firms, including individuals in their leadership (Figure 1, right panel). Notably, following the ban, 78 percent of contributions came from individuals in family firms, suggesting that the policy increased political activism in these firms. In the pre-ban period, compared to non-family firms, family firms in our sample were 20 percentage points (pp) more likely to make corporate donations. Contributing family firms were also more likely to engage in financial rent-seeking: they were more likely to receive subsidized credit from Brazil's National Development Bank (Balán, Dodyk and Puente, 2022). Overall, family firms

in Brazil wield significant political influence and profit from their political investments.[17]

Figure 2: Family firms are more likely to make campaign contributions and to receive state-subsidized credit (pre-ban period: 2010-2014)



Left panel: estimates are coefficients from a regression of contributions on a family firm dummy. Right panel: estimates are coefficients from a regression of the probability of receiving a loan from the BNDES on a binary indicator of family firm status, contributions in the previous election cycle, and the interaction term between these two covariates. Lines represent 90 and 95 percent confidence intervals. All specifications include firm-level controls (whether the firm is 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 hands of a firm's ultimate owners, percent of shares in free float, and largest shareholder gap), and industry fixed effects (industries: agriculture, extractive, manufacturing, energy, utilities, construction, services, finance, and holding). See Table J.1 for variable definitions and Balán, Dodyk and Puente (2022) for the full set of estimates.

Data

We use data on publicly listed firms and the full universe of campaign donations in Brazil.

Listed Firms. We use a dataset covering all companies supervised by Brazil's securities regulator, the *Comissão de Valores Mobiliários* (CVM). It is based on 6,219 structured reports and 6,424 supplemental forms, covering 593 unique firms between 2010 and 2018.[18] While the number of listed companies in the dataset may not seem particularly large, these firms are politically important in terms of their campaign contributions: in 2014—immediately before the ban—contributions by companies in our sample accounted for 15.3 percent of all corporate

[17] See Schneider (2013) for a qualitative account of family firms and family-controlled groups in Latin America.

[18] This is the number of unique firms for which the data contain information in at least one year. It does not correspond to the sample size of the firm-level regressions in this article because *(i)* not all firms are present in every year, and *(ii)* not all variables are available for every firm in every year.

contributions in Brazil, including both public and private firms.[19] They also represent a large share of the national economy: the market capitalization of public companies ranged from 50 to 70 percent of Brazil's GDP during our study period.[20]

The data include firms' financial information, ownership structure, and family ties among individuals in firms' leadership (board members and top management) and blockholders. These data capture family ties with high precision, rather than relying on proxies such as shared surnames. The reports also contain individual-level data in the form of semi-structured biographical sketches. Specifically, they include information on 12,554 unique individuals in leadership and management positions in both family and non-family firms, including personal and professional details such as educational background and public sector experience.[21]

Campaign Donations. We use data on the full universe of campaign donations in Brazil, made available by the country's Superior Electoral Court (TSE). In Brazil, all contributions must be deposited into a single designated bank account, and candidates are legally required to report all transactions, which are made public by the TSE. We use data for all elections between 2010 and 2018—including three national elections and two municipal elections. The dataset includes both firm- and individual-level campaign contributions. Firm-level donations comprise contributions made by firms and their controlled companies, while individual-level donations include those made by board members and individuals in management. The campaign finance data can be exactly matched to the firm data described above, as Brazil employs a system of unique identifiers for individuals and firms.

Results

In this section, we test the empirical implications of our argument. First, we show that, following the ban, family firms substituted individual for corporate contributions, using firm- and

[19] The number of public and private companies in Brazil in 2014 was 16,092, based on Brazil's national registry of legal entities. See SI Table A.1 for more details.

[20] World Bank Open Data.

[21] See SI Table J.2 for definitions of individual-level variables.

individual-level analyses. Second, we show that the ban turned contributions by family members into strategic complements, providing evidence that it activated familial cooperation that helped resolve the collective action problem.

Family Firms Substitute Individual for Corporate Contributions After the Ban

Firm-Level Analysis

We define a family firm as one in which: *(i)* the ultimate owner of a plurality of voting shares is an individual or a family, and *(ii)* one or more family members holds a top executive position, not merely a seat on the board of directors.[22] We refer to the family that owns the firm as the firm's *controlling family*, and to individuals in that family as *family members*.

We test the substitution hypothesis by regressing the amount contributed by individuals within a firm in 2018 on the amount contributed by the firm in 2014, including an interaction term for family firm status.[23] We estimate the following equation:

$$\begin{aligned}\text{Log}(\text{Individual Contributions}_{i,2018}) = {} & \delta\ \text{Family Firm}_i + \eta\,\text{Log}(\text{Firm Contributions}_{i,2014}) \\ & + \beta\ \text{Family Firm}_i \times \text{Log}(\text{Firm Contributions}_{i,2014}) \\ & + \theta\,\text{Log}(\text{Individual Contributions}_{i,2014}) + \gamma^{\top}\mathbf{X}_i + \mu_j + \epsilon_i,\end{aligned} \tag{1}$$

where i indexes firms, $\mathbf{X}_i$ is a vector of firm-level characteristics, ϵ_i is the error term, μ_j are industry fixed effects, and $\text{Log}(x) = \log(x+1)$. The coefficient β captures the difference in the elasticity of substitution of post-ban individual contributions with respect to pre-ban corporate

[22] If a firm satisfies the first condition but its owner is also the CEO, it is classified as a non-family firm, as it involves no family ties. This conceptualization supersedes definitions based solely on ownership (La Porta, Lopez-De-Silanes and Shleifer, 1999), emphasizing family involvement in management—a dimension shown to be particularly relevant for firms' economic performance (Bennedsen et al., 2007).

[23] We compare 2014 and 2018 because both election cycles included national and state-level elections.

contributions between family and non-family firms.

The coefficient on the interaction term is positive, indicating that top executives and board members in family firms were partly able to substitute individual for pre-ban corporate contributions (Table 1). Specifically, a 1 percent increase in pre-ban corporate donations in a family firm is associated with a 0.21 percent (= 0.237 − 0.027) increase in post-ban individual contributions. A doubling of pre-ban corporate contributions implies a 15.6 percent increase in post-ban individual contributions. By contrast, the elasticity of substitution is indistinguishable from zero in non-family firms. Results are robust to interactively controlling for ownership concentration (column 3) and to including all controls interactively (column 4).

Table 1: Substitution of contributions by the firm

	Contributions by the Leadership in 2018 (log)			
	(1)	(2)	(3)	(4)
Contributions by the Firm in 2014 (log)	0.059	−0.027	−0.011	−0.005
	(0.046)	(0.060)	(0.070)	(0.063)
× Family Firm	0.206*	0.237*	0.234*	0.202+
	(0.086)	(0.099)	(0.099)	(0.108)
× Ownership Concentration			−0.082	
			(0.149)	
Contributions by the Leadership in 2014 (log)	0.350***	0.282***	0.280***	0.281***
	(0.045)	(0.056)	(0.056)	(0.056)
Ownership Concentration		1.297	1.608	2.059+
		(1.055)	(1.216)	(1.148)
Observations	344	292	292	292
Adjusted R^2	0.220	0.214	0.212	0.221
Industry FE		✓	✓	✓
Controls		✓	✓	✓
Controls Interacted				✓

Notes: OLS estimates with standard errors clustered at the firm level. Column 1: no controls. The sample size decreases from $N = 593$ to $N = 344$ because the model considers the intersection of firms present in our sample in both 2014 and 2018. Column 2 includes firm-level controls (whether the firm is 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 hands of a firm's ultimate owners, percent of shares in free float, and largest shareholder gap), and industry fixed effects (industries: agriculture, extractive, manufacturing, energy, utilities, construction, services, finance, and holding). The sample size decreases to $N = 292$ due to the availability of controls. Column 3 interactively controls for ownership concentration. Column 4 includes all controls entered interactively. See SI Table J.1 for exact variable definitions.
$^{***}p < 0.001$; $^{**}p < 0.01$; $^{*}p < 0.05$; $^{+}p < 0.1$

Individual-Level Difference-in-Differences

We estimate the effect of the ban on the probability of contributions by members of the controlling family using a difference-in-differences design. Identification relies on the assumption that, in the absence of the ban, the probability of contribution among controlling family members would have followed the same trend as that of individuals in the same firm who are not part of the controlling family, conditional on observables. We estimate the following equation:

$$\text{Contribution}_{ijt} = (\beta\ \text{Family Ties}_{ijt} + \gamma^{\top}\mathbf{X}_{ijt}) \times \text{Post Ban}_t + \theta\ \text{Family Ties}_{ijt} + \delta^{\top}\mathbf{X}_{ijt} + u_i + v_{jt} + \epsilon_{ijt}, \tag{2}$$

where i indexes individuals, j indexes firms, and t indexes electoral cycles. Contributionijt is a binary indicator equal to 1 if individual i in a leadership position in firm j contributed in electoral cycle t. Family Ties$_{ijt}$ counts the number of family ties that i has within firm j in period t,[24] Post Ban$t$ is an indicator for the post-ban period, and $\mathbf{X}_{ijt}$ is a vector of individual characteristics (including whether the individual is a member of the controlling family, holds an executive position, sits on the board of directors, is a shareholder, has public sector experience, or has been an elected official). Finally, u_i are individual fixed effects, v_{jt} are firm-year fixed effects, and ϵ_{ijt} are robust standard errors clustered at the individual level. Under these parametric assumptions, β estimates the marginal effect of family ties on the probability of contribution by family members after the ban,[25] controlling for both unobserved time-invariant individual characteristics and time-varying firm-level factors.

To provide evidence for the substitution hypothesis, we break down the estimate by whether

[24] We only count the number of ties for individuals who are members of the controlling family. We ignore family ties of kin-related individuals within the firm who are not members of the controlling family (e.g., a non-family CEO and her brother). We also ignore family ties between members of the controlling family and individuals in other firms.

[25] Since we control for membership in the controlling family (the extensive margin), β estimates the intensive margin of family ties. Failing to control for family membership would prevent us from distinguishing between the effects of the extensive and intensive margins. In terms of the parameters of the model in SI Section B, the number of ties can be interpreted as s_i^F, the share of the firm's value added captured by family members. It is likely that in family firms, s_i^F increases with the size of the controlling family, as the benefits of control may be higher in larger, entrenched families.

the firm contributed prior to the ban. Specifically, we expect members of the controlling family to begin contributing following the ban *only if* the firm had contributed beforehand.

Table 2: Effect on the ban on the probability of individual contributions: difference-in-differences specification

	Probability of Contribution	
	(1)	(2)
Family Ties × Post 2015	0.034***	
	(0.010)	
× The Firm Contributed Before the Ban		0.039***
		(0.011)
× The Firm Did Not Contribute Before the Ban		−0.007
		(0.020)
Family Member × Post 2015	0.011	
	(0.028)	
× The Firm Contributed Before the Ban		0.003
		(0.033)
× The Firm Did Not Contribute Before the Ban		0.062
		(0.049)
Manager × Post 2015	0.008	0.005
	(0.010)	(0.010)
Board of Directors × Post 2015	0.013	0.014
	(0.010)	(0.011)
Manager and in Board of Directors × Post 2015	0.026	0.028
	(0.017)	(0.021)
Politician × Post 2015	0.030	0.027
	(0.050)	(0.050)
Worked in Public Sector × Post 2015	0.023	0.005
	(0.025)	(0.023)
Fraction of Voting Shares Owned × Post 2015	0.153**	0.192*
	(0.054)	(0.080)
Observations	38192	30621
Adjusted R^2	0.421	0.395
Firm × Year FE	✓	✓
Individual FE	✓	✓

Notes: Estimates from Equation 2 using OLS. Units are individuals in leadership positions in the firms in the sample. Models include fixed effects at the firm-year and the individual level. Standard errors are clustered at the individual level. The drop in sample size in column 2 is due to the fact that the interaction with pre-ban contributions requires firms to exist before the ban, which is not the case for all firms included in column 1. See SI Table J.2 for variable definitions.
$^{***}p < 0.001$; $^{**}p < 0.01$; $^{*}p < 0.05$

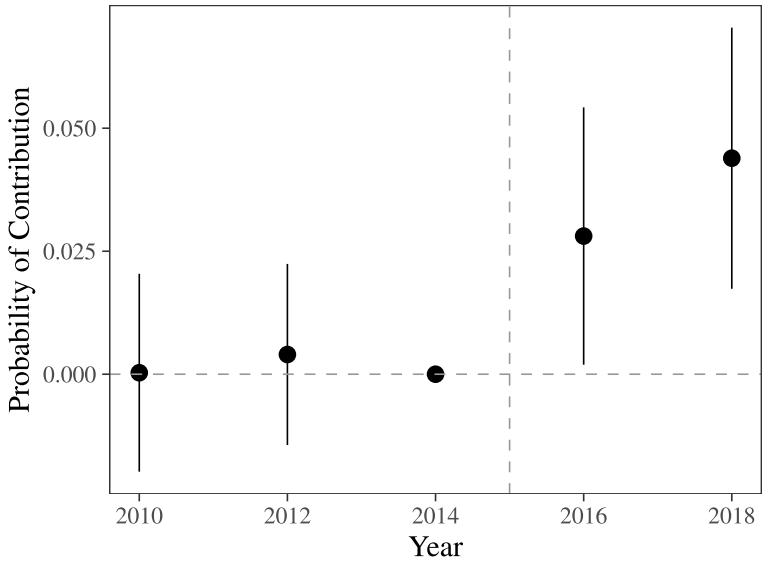
Consistent with expectations, each additional family tie increases the probability of contri-

bution by a family member, on average, by 3.4 percentage points—conditional on membership in the controlling family (Table 2, column 1). The effect increases to just under 4 percentage points when we repeat the analysis including an interaction term for whether the firm contributed before the ban (Table 2, column 2).[26] Since only 8.33 percent of family members contributed before the ban, the marginal effect represents a 40 percent increase (48 percent in politically active firms). We assess the plausibility of parallel trends using the following event-study specification:

$$\text{Contribution}_{ijt} = \sum_{\tau \neq 2014} \mathbb{1}(t = \tau) \times (\beta_\tau \text{ Family Ties}_{ijt} + \gamma_\tau^\top \mathbf{X}_{ijt}) + u_i + v_{jt} + \epsilon_{ijt}, \tag{3}$$

where β_τ captures the dynamic marginal effect of a family tie on the contribution probability of family members after the ban, with $\beta_{2014} = 0$ as the reference period, and the other parameters are defined as in Equation 2.

Figure 3: Effect on the ban on the probability of individual contributions: dynamic effects plot

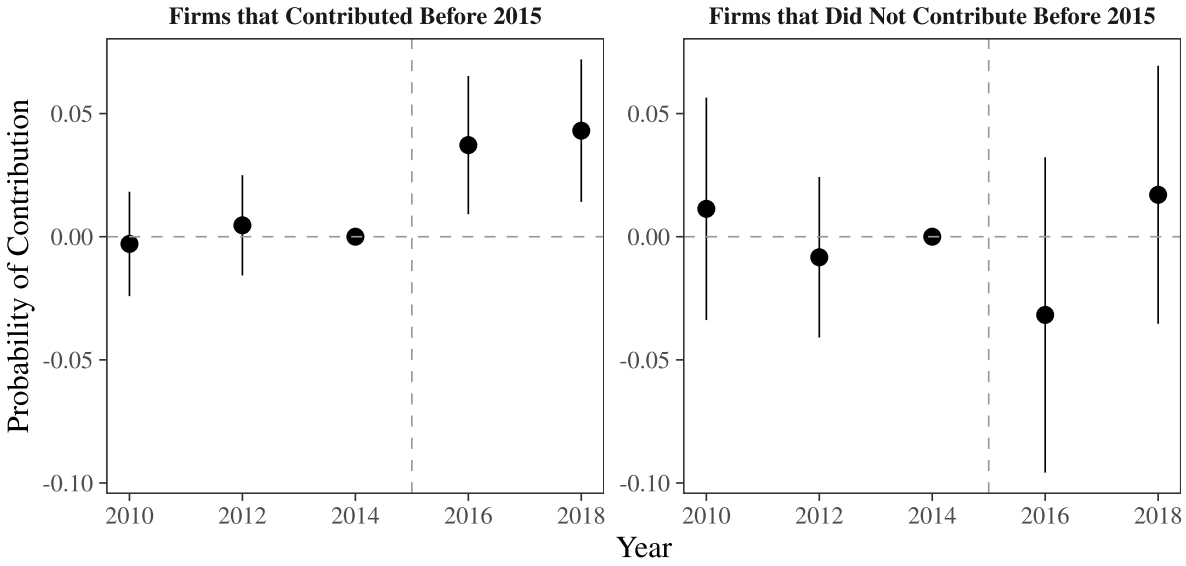


Notes: Coefficients from Equation 3. Bars represent 95 percent confidence intervals. The year 2014 is the omitted reference period. The β_t coefficients represent deviations from firm-specific parallel trends.

[26] Using a binary measure, the effect of membership in the controlling family on the probability of contribution after the ban is 9.7 percentage points (SI Table H.1).

As required by the parallel trends assumption, the pre-ban estimates of β_t are statistically indistinguishable from zero (Figure 3).[27] The post-ban estimates are consistent with those reported in Table 2. Breaking down the analysis by whether firms contributed before the ban, we find that the positive effects are concentrated in firms that were politically active prior to the ban (Figure 4).

Figure 4: Effect on the ban on the probability of individual contributions, by whether firms contributed before the ban



Notes: Point estimates are coefficients from Equation 3, interacted with an indicator for whether the firm contributed in the pre-ban period. Bars represent 95 percent confidence intervals. The year 2014 is the omitted reference period. The β_t coefficients represent deviations from firm-specific parallel trends for individuals who are members of the controlling family.

Family Members Influence Each Other's Contribution Decisions

Here, we study whether individual contribution decisions are interrelated. Specifically, we test the second empirical implication of our theory: *(i)* the collective action problem created by the ban should turn contributions by non-family-related individuals into strategic substitutes, as

[27] We test for robustness to violations of the parallel trends assumption using the method proposed by Rambachan and Roth (2023), and find that our estimates are robust to the largest deviation from parallel trends that is consistent with the pre-treatment data. Under this violation, we can reject the null hypothesis that the ATT is zero at the 5% level (SI Section H.2).

they can free-ride on each other's contributions; and *(ii)* it should turn contributions by family members into strategic complements, due to family ties' advantage in overcoming cooperative dilemmas.

We estimate the effect of peer behavior on an individual's contribution decision. We focus on two types of peers: those in the network induced by family ties and those in the network induced by membership in a firm's leadership. We estimate the following linear model:

$$y_{ift} = \beta I_{ift}^{\text{family}} + \rho \sum_{j \in N_i^{\text{family}}} y_{jft} + \delta \sum_{j \in N_i^{\text{firm}}} y_{jft} + \gamma^\top \mathbf{X}_{it} + u_{ft} + \epsilon_{ift}, \tag{4}$$

where y_{ift} indicates a contribution by individual i in firm f in year t; I_{ift}^{family} indicates whether individual i belongs to the family that controls firm f in year t (if f is a family firm); N_i^{family} is the set of i's family members who hold leadership positions in firm f (and is empty if i is not part of the controlling family); and N_i^{firm} is the set of individuals j in the leadership of firm f, excluding i. $\mathbf{X}_{it}$ is a vector of individual characteristics in year t, u_{ft} is a firm-year fixed effect, and ϵ_{itf} is the error term.

We seek to estimate ρ and δ, which measure the marginal effect of a contribution by a member of the family network and a member of the firm network, respectively, on the probability that individual i makes a contribution.[28] A positive marginal effect indicates that a contribution by peer j increases the likelihood of a contribution by individual i—that is, their contributions are complements. Conversely, a negative marginal effect is evidence that contributions are strategic substitutes. As per our theory, the ban on corporate contributions should increase ρ—it makes contributions complements among family peers—but decrease δ—it makes contributions substitutes among firm peers.

Estimating peer effects presents two challenges. The first is endogeneity: peers' actions (the independent variable) are affected by the individual's own actions (the dependent variable)—in Equation 4 both family contributions and firm peers' contributions are correlated with the

[28] This implies that if individual i has six family members, but only three contribute, the family peer effect is 3ρ.

error term, rendering the OLS estimator inconsistent. The second challenge is homophily: individuals in the same network may share unobserved characteristics that influenced their selection into the network, thus leading to correlated error terms and further invalidating the OLS estimator.[29]

To address these two problems, we use a two-stage least squares (2SLS) estimator with firm-year fixed effects. We instrument the contributions of i's peers with their individual characteristics. Specifically, we use a vector of characteristics of i's neighbors in their family and firm networks as instruments for their respective contributions.[30] To construct these instruments, we use observable characteristics that are predictive of contributions: membership in top management, joint membership in both management and the board of directors, fraction of voting shares owned, public sector experience, experience in elected office, and age.[31]

The validity of this estimator requires an exclusion restriction for both the family and firm networks. That is, conditional on membership in the same firm and/or in the controlling family,[32] individual j should affect individual i's contribution decision only through their own *contribution decision*—and not, for example, through her individual characteristics or through her *membership* in the controlling family. This assumption is plausible, as we flexibly account for any unobserved effects within firms by including firm-year fixed effects. These fixed effects also mitigate homophily concerns, as they absorb the common effects of shared characteristics that could be causally related to membership in the same firm.

[29] This last problem could be mitigated by adding firm-year fixed effects to the OLS estimator. However, we do not do so, as this would mechanically introduce a downward bias on δ: keeping the mean probability of donating in a given firm constant (absorbed by u_{ft}), a higher contribution by peers necessarily implies a lower contribution by a given individual, making $\delta < 0$. By contrast, the 2SLS estimator remains consistent when including fixed effects (Wooldridge, 2010, p.354).

[30] F-statistics reported in Table 3 exceed both conventional and conservative thresholds (Lee et al., 2022).

[31] Results do not depend on the specific choice of instruments (see SI Section C.3).

[32] More precisely, conditional on the common firm-year fixed effect u_{ft} and the family-membership indicator I_{ift}^{family}.

Table 3: Influence of contribution decisions among family and firm members: peer effects estimates

	OLS		2SLS	
	Before 2015	After 2015	Before 2015	After 2015
	(1)	(2)	(3)	(4)
Contributions by Family Peers	0.011	0.094***	0.045	0.080**
	(0.014)	(0.014)	(0.038)	(0.025)
Contributions by Firm Peers	0.002**	0.005***	0.004*	−0.001
	(0.001)	(0.001)	(0.002)	(0.001)
Family Member	0.025*	0.052*	0.009	0.059*
	(0.012)	(0.023)	(0.014)	(0.026)
Observations	23380	10955	23380	10955
Year FE	✓	✓		
Firm × Year FE			✓	✓
First Stage F-stat for Contributions by Family Peers			334.856	234.443
First Stage F-stat for Contributions by Firm Peers			2774.715	1188.633

Notes: Estimates from Equation 4. "Contributions by Family Peers" is $\sum_{j \in N_i^{\text{family}}} y_{jft}$, the number of members of the individual's family who make campaign contributions in an election cycle. It can only be positive for members of the controlling family of a firm. "Contributions by Firm Peers" is $\sum_{j \in N_i^{\text{firm}}} y_{jft}$, the number of members of the firm's leadership who made a campaign contribution. Columns 1 and 2 are estimated using OLS. Columns 3 and 4 are estimated using 2SLS, employing the sum of the exogenous peer characteristics as instruments. Controls include: membership in top management; membership in both management and the board of directors; fraction of voting shares owned; public sector experience; experience in elected office; and age. All specifications include year fixed effects, and Columns 3 and 4 include firm-year fixed effects. Standard errors are clustered at the individual level. Total sample size is lower ($N = 34,335$) than in the estimation of Equation 2 ($N = 38,192$) due to missing data in the age variable.
$^{***}p < 0.001$; $^{**}p < 0.01$; $^{*}p < 0.05$

We estimate Equation 4 using OLS and 2SLS, breaking down the data into pre- and post-ban periods. Consistent with our expectations, the results in Table 3 indicate the existence of positive peer effects in the family network following the ban. The 2SLS estimate indicates that the probability of contribution by a member of the controlling family increases by 8 pp if another family member starts contributing.[33] We find no evidence of positive peer effects in the family before the ban. The opposite pattern holds for the firm network: peer effects are positive before the ban but are muted afterward, consistent with the prediction that non-kin-related individuals are unable to overcome the collective action problem.

To account for the possibility that this effect could arise from *any* type of tie, we generate random ties among individuals in leadership positions. The ties induced by one thousand random networks do not produce effects comparable to those of family ties (SI Section C.2).

[33] A comparison between the OLS and 2SLS estimates shows that OLS is biased upward. This is consistent with the presence of homophily—positive selection into the family network—if the estimate is affected exclusively by homophily bias.

Similarly, we re-estimate Equation 4 using alternative networks that can be reconstructed from biographical information in the CVM data: *(i)* the network of public sector peers—individuals who were employed in the public sector at some point—and *(ii)* the network of higher education peers—individuals who obtained a degree from the same university. These networks do not yield peer effects comparable in magnitude or significance to those observed in the family network—particularly after the ban and in the 2SLS specification (Table 4). Overall, the results suggest that the ban altered the social logic of contributions, creating strategic complementarities in family members' decisions while dampening peer effects among firm members unrelated by family ties. Consistent with our theoretical expectations, these findings indicate that the role of family ties in solving cooperation dilemmas is activated following negative shocks.

Table 4: Influence of contribution decisions. Placebo test: alternative networks

	OLS		2SLS	
	Before 2015	After 2015	Before 2015	After 2015
	(1)	(2)	(3)	(4)
First Placebo: Public Sector Peers				
Contributions by Public Sector Peers	0.018***	0.019*	0.004	0.008
	(0.005)	(0.008)	(0.005)	(0.009)
Contributions by Firm Peers	0.002**	0.006***	0.003	−0.001
	(0.001)	(0.001)	(0.002)	(0.001)
Public Sector	0.077**	0.040	0.047	0.041
	(0.028)	(0.029)	(0.028)	(0.027)
Observations	23380	10955	23380	10955
Year FE	✓	✓		
Firm × Year FE			✓	✓
First Stage F-stat for Contributions by Public Sector Peers			3691.841	726.934
First Stage F-stat for Contributions by Firm Peers			2793.656	1192.117
Second Placebo: Higher Education Peers				
Contributions by Higher Education Peers	0.001	0.009*	0.001	0.001
	(0.002)	(0.003)	(0.003)	(0.003)
Contributions by Firm Peers	0.002*	0.005***	0.003	−0.001
	(0.001)	(0.001)	(0.002)	(0.001)
Higher Education	0.015**	0.015*	0.013*	0.014
	(0.006)	(0.007)	(0.006)	(0.007)
Observations	23380	10955	23380	10955
Year FE	✓	✓		
Firm × Year FE			✓	✓
First Stage F-stat for Contributions by Higher Education Peers			1751.192	593.216
First Stage F-stat for Contributions by Firm Peers			2746.177	1207.548

Notes: Estimates from Equation 4. Notes as in Table 3. All specifications include year fixed effects and Columns 3 and 4 include firm-year fixed effects. Standard errors are clustered at the individual level.
$^{***}p < 0.001$; $^{**}p < 0.01$; $^{*}p < 0.05$

Alternative Mechanisms

Leadership and Collective Action

Firms are hierarchies—they are defined by authority (Williamson, 1973). Thus, they may be able to solve collective action problems by command, in contrast with our theory, which does not entail directional influence. Alternatively, while our theory focuses on familial cooperation, some groups—or coalitions (March, 1962)—within firms may also be in a privileged position to solve collective action problems (Olson, 1965). In this section, we test for these possibilities. First, shareholders may have greater incentives and influence. The effect of family firm status is robust to controlling for ownership concentration in the firm-level analysis, both linearly (Table 1) and interactively (SI Table D.1). Following the ban, individuals who own a higher fraction of voting shares are more likely to contribute (Table 2). However, the effect of family ties remains significant after controlling for ownership, indicating that family ties matter above and beyond ownership. Second, the results are robust to including two measures of collective action capacity by blockholders (large indirect individual shareholders)—their number and concentration (SI Table D.2). Third, we explore leadership structures and latent groups using different configurations of firms (Table 5). Specifically, we examine: *(i)* the inverse of leadership size, *(ii)* the fraction of individuals holding positions both on the board and in management, *(iii)* the existence of overlap between the board and management, and *(iv)* the existence of overlap between ownership and management. None of these factors is significant, except for *(iv)*, which mutes the effect of family firm status due to collinearity.[34] Likewise, directional peer effects among firm subgroups do not alter the main result in Table 3 (SI Table D.4). Finally, we examine authority within the family and test whether older generations can solve the collective action problem by command. The evidence is inconsistent with this idea. First, after the ban, older and younger generations contribute in roughly equal proportions in hitherto politically active firms (SI Table D.5, left panel). Second, when partitioning the family

[34]Conceptually, in family firms, the distinction between ownership and management is often blurred.

into generations defined by levels of the family tree, peer effects appear to be driven by upward ties—i.e., from younger to older generations (SI Table D.5, right panel).

Table 5: Firm-level substitution: latent groups in the firm

	Contributions by the Leadership in 2018 (log)			
	(1)	(2)	(3)	(4)
Contributions by the Firm in 2014 (log)	0.039	0.028	0.077	−0.061
	(0.065)	(0.066)	(0.085)	(0.061)
× Family Firm	0.265**	0.260**	0.256*	0.127
	(0.097)	(0.095)	(0.099)	(0.129)
× Management ∩ Board ≠ ∅	−0.143			
	(0.082)			
× Fraction in Management ∩ Board		−0.742		
		(0.398)		
× 1 / Leadership Size			−1.114	
			(0.604)	
× Ownership ∩ Management ≠ ∅				0.188
				(0.123)
Contributions by the Leadership in 2014 (log)	0.281***	0.273***	0.265***	0.273***
	(0.055)	(0.056)	(0.056)	(0.055)
Observations	292	292	292	292
Adjusted R^2	0.220	0.226	0.227	0.245
Industry FE	✓	✓	✓	✓

Notes: Estimates from an OLS model with standard errors clustered at the firm level. Controls are as in Table 1. $^{***}p < 0.001$; $^{**}p < 0.01$; $^{*}p < 0.05$

Family Identifiability

A competing explanation for the comparative advantage of family firms is that such firms enjoy greater name recognition, which may help politicians identify them as the source of campaign contributions. In this view, businesspeople continue to contribute after the ban not because they can solve a collective action problem, but because they know that politicians can attribute their contributions to their firm and will reciprocate in the future. We test this idea in two ways. First, we examine individuals who carry the most common surname among family members in a given family firm—an approximation of "the family surname." The vast majority of individuals in firms in our sample (79%) share the family surname. However, results from the

DiD analysis using *Family Surname* × *Post* as the treatment variable indicate that substitution is not driven by individuals sharing the firm's plurality surname (Table 6, column 1). Second, eponymous firms—non-family firms that are strongly associated with particular individuals—could also be particularly identifiable.[35] Of the 593 firms in our sample, 45 are eponymous (i.e., named after a founder, with either the founder or an heir still in a leadership position). Notably, only 35 of these are family firms according to our definition. Since there are 237 family firms in our sample, only 15 percent are eponymous. We repeat the firm-level substitution analysis including a variable capturing eponymity and find that this variable is not statistically significant, while the coefficient on family firm status remains stable and significant (Table 6, column 2). Likewise, repeating the difference-in-differences analysis including an indicator for whether individuals belong to an eponymous firm does not alter the coefficient of interest (SI Table E.1). Overall, these results suggest that our findings are not driven by firm or individual identifiability.

Table 6: Family identifiability: plurality surname (left panel) and eponymous firms (right panel)

	Contributions by the Leadership in 2018 (log)	
	(1)	(2)
Contributions by the Firm in 2014 (log)	−0.025	−0.030
	(0.060)	(0.061)
× Family Firm	0.298*	0.231*
	(0.145)	(0.103)
× Number of Members with the Family Surname	−0.027	
	(0.041)	
× Eponymous Firm		0.056
		(0.149)
Contributions by the Leadership in 2014 (log)	0.283***	0.280***
	(0.056)	(0.056)
Observations	292	292
Adjusted R^2	0.212	0.209
Industry FE	✓	✓

Notes: Estimates from an OLS model with standard errors clustered at the firm level. Controls are as in Table 1.
$^{***}p < 0.001$; $^{**}p < 0.01$; $^{*}p < 0.05$

[35] Eponymous firms have been shown to display superior performance (Belenzon, Chatterji and Daley, 2017).

Preference Homogeneity

Non-family firms' failure to counteract the ban on corporate contributions could potentially stem from frictions among board members if, for example, they exhibit more heterogeneous preferences than family members. Preference homogeneity could, therefore, represent an alternative mechanism behind our results. Note, however, that if preferences systematically differed between family and non-family firms, we would expect such differences to exert a relatively constant effect on political behavior. By contrast, our theory posits the activation of cooperative behavior within family firms specifically in response to the collective action problem induced by the ban. We present two pieces of evidence against the preference-based interpretation. First, the estimates in Table 3 show that peer effects emerge only after the ban—not before—as a preference-based explanation would predict. Second, preference homogeneity may result in a greater similarity of contributions in family firms. To test this, we study whether the contributions of family members are more similar to each other compared to those of non-family members. Using a measure of portfolio similarity, we find that family members' contributions are not more similar overall, nor do they become more similar after the ban—contrary to what we would expect if the policy had induced coordination on parties or candidates (SI Table F.1). In sum, the evidence suggests that family ties help solve the collective action problem by increasing the probability of contributions, not by changing their target.

Reputational Effects of Corruption Scandals

Here, we consider the possibility that the observed effects are driven not by the ban itself, but by the fact that it was enacted in the aftermath of a major corruption scandal. Corruption scandals may influence campaign contributions through a reputational or deterrent effect, making donations more subject to public scrutiny or less legitimate, thereby depressing the overall amount of money in politics. However, this interpretation would only explain our findings if scandals affected family and non-family firms differentially—with family firms still able to substitute individual for corporate contributions. We address this possibility using a prior major

corruption scandal—popularly known as *Mensalão*—as a placebo test. The estimated effect is imprecise and statistically indistinguishable from zero (SI Figure G.1, left panel). Importantly, the *Mensalão* scandal did not reduce the total amount contributed by firms and their leadership (SI Figure G.1, right panel). Overall, the results do not appear to be driven by the reputational effects of corruption scandals.

Substitution Towards Illegal Contributions

In Brazil, a small academic literature and journalistic accounts have addressed the issue of illegal campaign donations, known as *Caixa dois*. Indeed, shortly after the Supreme Court ruling, some experts expressed skepticism, fearing that the decision would lead to an increase in off-the-books donations.[36] While this conjecture is plausible, we can observe only legal contributions. However, our findings suggest that substitution into illegal donations is unlikely to be the main explanation. First, if firms could make illegal donations as easily as legal ones, we would likely not observe substitution in legal contributions—the presence of substitution as a behavioral response strongly suggests that the ban was binding. Second, if family firms were particularly prone to or capable of making illegal donations, we would expect to see lower—not higher—substitution in legal donations by such firms. Furthermore, even if it were true that some firms have greater capacity to donate illegally, Equation 2 includes Firm $\times$ Year fixed effects, which absorb this source of variation.

Conclusion

How to reduce business political influence has long been a vexing question for scholars and policymakers. This article analyzed the effects of campaign finance regulation aimed at curtailing the political influence of business. Our results reveal that, while the ban on corporate contributions in Brazil was effective at reducing the total amount of money in politics, it generated a bifurcation in political behavior across firm types. Specifically, we showed that family

[36] See, for example: *Oxford Human Rights Lab*, 12/16/2015.

firms are more capable of circumventing its intended effect. Leveraging a recent reform in Brazilian electoral law and employing a dataset on family ties within firms, we provided evidence consistent with the hypothesis that family firms are better able to substitute individual for corporate contributions. Following the ban, members of controlling families in leadership positions in hitherto politically active firms increased their probability of contributing to politics.[37] We also provided evidence that contribution decisions are influenced by relatives within the same family network.

While our findings are based on a sample of publicly listed companies, they illustrate that familial collective action is not confined to small and medium-sized firms—familism also operates within large, heavily regulated corporations. More broadly, the phenomenon we study has parallels in the public sector. Recent research documents that nepotism is pervasive in Mexico's judiciary (Ríos-Figueroa and Soto-Tamayo, 2024) and in Colombia's public sector, where family members were able to circumvent an anti-nepotism law (Riaño, 2023). Thus, mounting evidence suggests that familism can serve as a mechanism of state capture.

Should countries ban corporate campaign contributions? The ban drastically reduced the amount of (legal) money in politics. However, the evidence presented in this article introduces an important caveat. Despite its goal of curtailing the political influence of business, the ban on corporate contributions effectively empowered family firms—an economically and politically significant actor in Latin America and across the developing world. The adaptive capacity conferred by family ties may help explain the persistence of family firms in Latin America—and of what has been described as "hierarchical capitalism" (Schneider, 2013). By revealing an unexpected obstacle to campaign finance reform, our results contribute to understanding the persistence of political power in a region marked by high levels of political inequality (Carnes and Lupu, 2015). Our findings thus suggest a complementarity between less efficient forms of corporate governance and political inequality. While this paper focuses on firms, the idea that

[37] Importantly, in this paper we document substitution by an important firm type within the same policy instrument—campaign contributions—a key channel of political influence in this context (Schneider, 2004). It is possible that non-family firms attempted to counteract the effect of the ban by employing other policy instruments or strategies, such as worker mobilization. Substitution across policy instruments could be a fruitful avenue for further research.

campaign finance reforms can have unintended consequences and empower special interests appears to apply more broadly (Cammett, Novaes and Tuñón, 2024), contributing to a wider research agenda.

Our findings also carry broader implications for understanding the mechanisms underlying institutional weakness (Brinks, Levitsky and Murillo, 2019). We provided micro-level evidence showing how the internal features of organizations can enable them to bypass the intended goals of regulation. That is, we demonstrated that institutional weakness may stem from *pre-institutional* sources. By documenting a case in which informal structures interfere with formal regulation, our findings support a relational view of state capacity (Migdal, 1988; Wang, 2022). We believe that this approach may prove fruitful for studying elite persistence and the challenges of programmatic reform in other settings.

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