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POLITICAL CONTRIBUTIONS MADE BY INDIVIDUAL SHAREHOLDERS: is it an imitation of corporate contributions?

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1. INTRODUCTION

Literature on corporate political influence has focused mainly on campaign contributions made by firms, but little is known about the behavior of individuals affiliated with these firms (Bonica, 2016). Some studies have focused on the CEO, president, and board chair (eg, Burris, 2001; Gordon et al., 2007), but individual shareholders are still overlooked. We already know that firms and associations, unlike individuals, have no political preference (Burris, 2001), but have economic interests, make donations expecting positive returns for the firm and higher market values (Cooper, et al., 2010; Davi & Portugal, 2020; Jayachandran 2006; Shon, 2010). In contrast, individuals have political preferences, making campaign contributions because they are enthusiastic about politics (Ansolabehere, et al., 2003) or to obtain private benefits (Bertrand, et, al., 2018; Fulmer, et al., 2020), that can changes in the firm 's profitability (Gordon, et al., 2007), and the firm's operating performance (Ovtchinnikov & Pantaleoni, 2012).

Different stakeholders have a personal stake in the political process and may try to affect government decisions on behalf of the firm (Ovtchinnikov & Pantaleoni, 2012). We believe that individual shareholders are one of the stakeholders who can act in the political environment on behalf of the firm. However, individual contributions follow a different strategy than corporate contributions. In corporate contributions, most follow a strategy of contributing heavily to likely winners (Burris, 2001). They mainly use diversification to ensure political coverage (Davi & Portugal, 2020; Goldman, et al., 2009). Typically, firms have a balanced approach, reluctant to take a strong position in electoral disputes (Aggarwal, et al., 2012). When compared, individual contributions are more ideological, more likely to contribute with non-leaders and less willing to support powerful legislators, but this heterogeneity of personal interests within firms tends to ensure that firms remain well connected (Bonica, 2016).

Political contributions from firms receive controversial opinions in many countries, including Brazil, which passed a law in 2015 to ban corporate donations, in line with critics' thinking that private donations lead to potential corruption risks (Baltrunaite, 2020). Brazilian elections are extraordinarily expensive, campaign financing was mainly from firms that donate directly to related candidates (Samuels, 2001). But what have change in Brazil after the prohibition of firm’s donation to political campaign? The media coverage shows that a lot of individual shareholders have donated during the 2018’ campaign election in Brazil. However, we still don’t know how is the donation impact? Also, firm’s donations to political campaign are correlated with future stock returns (Bandeira-de-Mello, et al., 2012; Davi & Portugal, 2020). We assume that the investor also see with good eyes campaign donations made by individual shareholders, in line with other studies such as Gordon, et al. (2007) and Ovtchinnikov and Pantaleoni (2012). After an in-depth hand collected data we could understand individual shareholder giving strategy and analyze the impacts of individual shareholder’s campaign donation in the firm’s market value.

In one hand, after the 2015’s regulation, there is an increase in donations from individual shareholders of Brazilian firms to political candidates. On the other hand the amount donated to political parties did not show significant differences. Weak party loyalty (Boas et al., 2014; Desposato, 2006) might have encouraged individual shareholders from Brazilian firms to donate more to candidates than to parties in an individual-individual relationship. Another discovery is about the individual shareholder's giving strategy, there is an increase in the number of candidates supported by individual shareholders of Brazilian firms. The balanced (Aggarwal et al., 2012) and diversified (Davi & Portugal, 2020; Goldman et al., 2009) approach to corporate donations was maintained in donations by individual shareholders. But political parties do not show significant differences, the number of recipients of donations remained unchanged. We find a positive association between donations made by individual shareholders and the market value of firms where they have their capital invested. However, regarding diversification, our study identify that the number of candidates or parties supported by individual shareholders from Brazilian firms is not related to market value.

Our results contribute to the political strategy within the non-market strategies, by presenting results of contributions from individual shareholders. Little is known on contributions made by individual shareholders, and whether these contributions have any effect on the firm's market value. We show that firms might be switching corporate contributions for individual shareholders contributions, and at least for market value seems positive. Through the political campaign contribution of the firm's individual shareholder, it is possible to signal to politicians and the market that the firm still provides access to the public policy process. It demonstrates that it maintains a political connection, can protect itself from uncertainty and risk, and obtains information and benefits. In addition, we contribute to the understanding that the diversification of contributions from individual shareholders does not have a significant relationship with market value, which leads us to believe that it is important to maintain the political connection, regardless of the number of donation's beneficiaries.

2. THEORY

2.1 Two Signals with One Resource

Uncertainty relationship between business and government might cause inefficiency to the firm. To know and control everything that is happening in the governmental arena is too complex. Without influence, access or legitimacy (Hillman, et al., 1999) it is difficult to understand the rules of the game (North, 1990) and the process in the public arena. So, the firm might develop the nonmarket strategies to deal with the complex context. The nonmarket strategies consist on social, political and legal arrangements that structure firm's interactions with the stakeholders (Baron, 1995). In this study we focus on the political arena, it means the Corporate Political Activity (CPA). The CPA is firm's deliberative actions to get benefits through the influence of the public policy process (Hillman, et al., 2004). Through CPA the firm might monitor the regulatory and legislative process and foresee governmental decisions that might generate competitive advantage for the firm or the sector. Thus, the government is a competitive tool that creates a favorable environment in which firms might get better performance (Hillman & Hitt, 1999).

The political influence is conditioned by political resources (Bonardi, 2011; Hillman & Hitt, 1999; Hillman et al., 1999) used by the firm to influence public decisions (Baron & Diermeier, 2007; Dahan, 2005) to access the politicians, government and public policy decision makers, and to get legitimacy to achieve political access (Hillman et al., 1999). The decision to invest resources in the political arena is crucial and it has implications for corporate governance and future market expectations (Bandeira-de-Mello, et al., 2012). Thus, resourced-based-view (RBV) is a straightforward manner when it comes to studying CPA (Bonardi, 2011). Because firms must mobilize specific resources effectively to influence the public policy process. Also, similar with the RBV attributes of rareness, inimitable and non-substitutable resources, the political resources follow the same attributes (Bonardi, 2011). And similar patterns of the importance of the RBV to study CPA can be found within different authors (Dahan, 2005).

The firm might use relational, organizational, and/or financial resources, and bundles and configurations of these resources to boost a potential competitive advantage (Barney, 1991). And the development of such resources might leverage the CPA. The relational resources include knowledge and personal relationship (Hillman & Hitt, 1999). Firms engaged in CPA might develop certain relational resources (Dahan, 2005) to be more effective as a political actor, to get influence and access. For example, sitting in a public committee or personal relationship (Hillman & Hitt, 1999; Rajwani & Liedong, 2015), a former government official in the firm's board of directors (Lester, et al., 2008). The organizational resource is the firm's controlling and monitoring activities, also the informal relationship within and between firms and the stakeholders (Barney, 1991). For example, government relations department, consultancy office (Dahan, 2005), relationship with business association (Jia, 2014). And the financial resources imply the assets and financial conditions of the firm, for example campaign contribution (Boas, et al., 2014; Claessens, et al., 2008).

Therefore, the firms need resources to involve in nonmarket strategy and to send signals to both, politicians (Brown et al., 2020) and market (Deephouse, 2000). The signals are a way to decrease the asymmetry information between the signaler and the receiver (Spence, 1973; 2002). So, through the signals, the firm's individual shareholders (signaler) send signals to the politicians and the market (receiver), showing that the firm is still acting in the nonmarket arena. And the receiver provide feedback to the firm increasing their market value, or approving regulations (Brown et al, 2020; Connelly et al, 2011). In the political arena the signals are useful, for example, Ridge et al. (2018) examine the politicians sending signals to the firms regarding the approval of regulations. Brown et al (2020) examine firms sending signals to politicians regarding regulatory intensity.

The firms might use a variety of nonmarket mechanism to send the signals to the politicians and market, for example: the political campaign contribution, the focus of our study. Political campaign contribution is one of the most studied strategies in CPA using financial resources (Rajwani & Liedong 2015), however, the literature has focused on contributions made by firms, little is known about the contributions made by affiliated individuals (Bonica, 2016), such as individual shareholders. Political campaign contribution represents an investment in political capital (Akey, 2015), through the contribution of individual shareholders, the firm can show the market that it is still acting to influence public police on their behalf. And also, the campaign contribution is a signal to the politicians that the firm is a helpful asset to the government and future politicians. Usually, the signals are rarely a one-time event (Brown et al., 2020), the firm uses the signals along the time to influence future events, campaigns, and regulations.

2.2 Campaign contribution

Donation to campaign come from different sources, firms, associations and individuals that seek private benefits set by the government (Ansolabehere, et al., 2003). We already know that firms and associations, unlike individuals, have no political preference (Burris, 2001), but they have economic interests, so they use the campaign contribution for different reasons, mainly in an attempt to influence public policies on their behalf favor (Aggarwal, et al., 2012), and ensure positive returns and improvement in market value for shareholders (Cooper, et al., 2010; Davi & Portugal, 2020; Jayachandran, 2006; Shon, 2010). Campaign donations also increase political information, demonstrate civic involvement and ensure that divergent opinions are heard (Baltrunaite, 2020).

There is evidence that firm's campaign contributions are correlated with increases in the firm's future operating performance (Cooper, et al., 2010). They are positively related to return on equity and shareholders' expectations of profit and value, it also allows superior and lower cost access to financial debt (Bandeira-de-Mello, et al., 2012). Akey (2015) shows that firms that donated to winning candidates in the elections benefited from abnormal post-election equity returns, 3% higher than firms that donated to candidates for losing candidates. Baltrunaite (2020) found that corporate political donations shape government purchases and guarantee preferential treatment in the allocation of public resources. In addition, Davi and Portugal (2020) indicated that firms that contributed to campaigns improved the value of the shares after the result of elections and have higher returns on equity than those that were not involved in the political process.

In corporate contributions, firms have an economic interest in legislative actions, regulatory decisions and among other political initiatives (Aggarwal, et al., 2012). Most follow a strategy of contributing heavily to likely winners (Burris, 2001). Firms can also make campaign contributions to candidates who share ex-ante interests aligned with the firm, or in an effort to persuade ex-post political decisions (Shon, 2010). Contributions tend to be transactional and short-term, the values of donations and recipients vary over time, are generally spread across different candidates and parties, that is, firms are reluctant to position themselves in electoral disputes, have a balanced approach (Aggarwal, et al., 2012). So, firms use the diversification on the campaign contribution probably seeking a political hedge (Davi & Portugal, 2020; Goldman, et al., 2009). Campaign contribution is a form of political connection.

Considering the particularities of the Brazilian context, its financial instability and low level of institutional development, the political connection becomes more valuable and firms are induced to connect with the political arena to obtain advantages (Davi & Portugal, 2020). Brazil is a federal democracy divided into 26 independent states and a Federal District that is home to the Federal Capital of Brasilia. Officials are elected to public office within the executive and legislative branches, whereas judicial officials are civil servants or political nominees. General elections for the executive and legislative branches take place every four years: the Presidential office and Deputies in the National Chamber hold four-year terms whereas Senators are elected for eight-year terms, with elections being held every four years to renew one-third and then subsequently two-thirds of the 81 seats. Brazil is a multi-party system with 33 political parties (Tribunal Superior Eleitoral [TSE], 2020a). These parties can work together within a coalition government and candidates must belong to a political party in order to run for office (i.e., there are no independent candidates).

Until 2015, during electoral years firms were authorized to donate up to 2% of their gross revenues from the year prior to the election to a candidate or to his or her party and individuals up to 10% of gross earnings for the year (in accordance with federal law 8.713, 1993). After 2015 a law was approved to ban corporate donations, aligned with the thought that the implication of firms in the political process lead potential risks of corruption (Baltrunaite, 2020). It has been discussing that corporate donations, more often, seek to obtain only future political favors, increasing the influence of economic power on politics and on the democratic process (Davi & Portugal, 2020). However, despite the law, individual campaign contribution is still allowed in the country, that is, the CEO, managers, directors and individual shareholders can make donations with their own resources. They can still donate to candidates and parties up to 10% of the annual gross revenue declared to the Internal Revenue Service (TSE, 2020b).

Campaign contributions made by individuals follow a different logic than those made by firms, but both impact the political system and are necessary for a balanced evaluation of the policy (Burris, 2001). Unlike firms, individuals have political preferences (Ansolabehere, et al., 2003), are intensely supporters, partisan, contribute to a single candidate or party to the detriment of another (Burris, 2001). But they also think in their economic interests, and they can use the campaign contribution as a signal to obtain personal benefits (Bertrand, et al., 2018;), and benefits for their firms (Bonica, 2016; Fulmer, et al., 2020; Ovtchinnikov & Pantaleoni, 2012). They attach instrumental value to their individual political contributions and perceive contributions as investments with potential for monetary return (Gordon, et al., 2007).

Previous articles emphasize the role of personal connections in politics, in which they perceive that, the politician favor people with whom they have relationships of trust (Cohen, et, a., 2011; Fulmer, et al., 2020). Individual contributions are expected to produce policies that are beneficial to the firm's interests, so that affiliated individuals whose remuneration varies directly with corporate earnings are more likely to make political campaign contributions (Gordon, et al., 2007). Furthermore, it is highlighted the campaign contribution as uncertainty buffering mechanism used to get an insurance tool to improve the firm’s profitability (Hadani et al. 2019). So, we argue that even after an institutional shock the campaign contribution is still an activity used by the individual shareholders to signal the political connection to the market, protect the firm against uncertainty and risk and demonstrate that the firm still provides access to the public policy process. And we expect that after the regulation there is an increase in the political campaign donation from firm’s individual shareholder to guarantee the benefits and influence. Thus, we propose the following hypothesis:

Hypothesis H1: The regulation increase the amount donated and number of candidates benefited from firm’s individual shareholder.

Previous research of individual campaign contributions portrayed the expectation of a positive return for the firm. For example, Gordon, et al., (2007) argue that the political contributions of individual corporate executives can promote changes in the firm 's profitability. Ovtchinnikov and Pantaleoni (2012) discuss those individual contributions are associated with better corporate operating performance, being valuable to firms, especially during adverse economic times. It is also a method for individual corporate executives to demonstrate their power and prestige, showing the access to the political system and pave the way for indication government positions (Aggarwal, et al., 2012). Therefore, the *political campaign donation from firm’s individual shareholder* is expected to positively affect the firm’s market value, since it might be used as signal to the market and politicians that, even with the high political and economic instability, the *firm’s individual shareholder* still provides access within the government, obtain information to proactively act on the public process, and effectively reach benefits to the firm. Thus, we propose the following:

Hypothesis H2: The amount donated and the number of firm’s individual shareholder positively impacts the firm’s market value.

The literature of the individual shareholder’s donation behavior is still poorly understood. The beliefs, interests, and preferences on political issues of directors and executives may not be aligned with the shareholders. And the shareholders might also don’t want to associate themselves with a political discourse that they do not support (Bebchuk & Jackson, 2013). Also, the individual shareholder's contributions don't need to reflect the preferences of the firm, they might reflect their own political preferences (Ansolabehere, et al., 2003; Bonica, 2016; Burris, 2001). Individual shareholders are ideologically motivated, they might donate because they are enthusiastic about politics and because they have enought resources (Ansolabehere, et al., 2003) to engage in this form of political expression (Baltrunaite, 2020).

The individual shareholder's contributions aren't so transparent and might indicate a firm's agency problem. Bebchuk and Jackson (2013) show that the corporate campaign contribution reflects the directors, executive's judgement, and political preferences, but a divergence of interests between executive's and corporations might arise. Bonica (2016) investigate the political donations made by corporate elites and identified that corporate elites are more than agents acting in name of their firms. They have a different purpose than what is expected, they prioritize their personal ideological preferences and partisanship. So, might be enough reason to expect a divergence between the individual shareholders preferences and firms' political preferences.

However, if there is an institutional shock, in which firm's is not allowed to make campaign contribution, the individual shareholder's contribution might follow the firm's political preference. Although individual shareholder's donations are restricted by personal ideological preferences, individuals might donate on behalf of themselves and their firms, even with the high degree of ideological heterogeneity, and then, they might ensure that firms remain well connected (Bonica, 2016). The number of candidates supported by firms is positively correlated with the future returns (Cooper, et al., 2010). Based on the corporate political literature, we expect that the number of candidates supported by the firm's individual shareholders might be associated with a positive impact in the firm's market value. The number of political parties is believed not to influence, since there is an amount donated by the public funds called the party found. Therefore, the firm's *individual shareholder political campaign donation signal to* the politicians and market that the firm is still building a bridge with the political arena, even through the individual's shareholders. Thus, we propose the following:

> *Hypothesis H3a: The number of candidates that receives donation from the firm's individual shareholders positively impacts the firm's market value.*

> *Hypothesis H3b: The number of political parties that receives donation from the firm's individual shareholders non impacts the firm's market value.*

3. METHOD

3.1 Data and sample

Our study presents a longitudinal section in an unbalanced panel that includes publicly traded firms listed on the Brazilian stock exchange B3. We considered the listed firms that have in their ownership structure at least one individual shareholder and at least the firm is listed in one year from 2010 to2020. The range of years contains 3 electoral cycles (2010, 2014 and 2018) and the 2014 was the last year that firms were allowed to make corporate contributions to electoral campaigns in Brazil. Firms with only corporate partners are not the object of this study. Therefore, the sample is composed of 348 firms that generated 3,828 observations firms/year. We collected data from publicly available sources: (i) Financial data from the Economatica database; and (ii) campaign donations data from the website of the Electoral Court (Tribunal Superior Eleitoral).

3.2 Variables

We assess the relationship of contributions to election campaigns carried out by individual shareholders and the market value of firms where they have their capital invested. We also seek to identify the donation strategy of individual shareholders in the three electoral cycles. Table 1 shows our dependent variable and the independent variables, the metric used, and the authors who used the same variables in their non-market strategies studies. In addition to the dependent and independent variables, we used control variables, from the firms' financial data, *asset* (for example, Aggarwal et al., 2012; Baltrunaite, 2020), *net profit* (for example, Cooper et al., 2010) and *equity* (eg, Akey, 2015; Cooper et al., 2010). The *net profit* and *equity* financial variables were winsorized at the 0.25 level in both tails and the *asset* financial variable was used the natural log of total asset.

Table 1. **Search variables**

Variables	Metrics	Authors
	Dependent	
(1) MV (ln)	Market value of common shares (ie number of shares outstanding times share price) plus total outstanding debt	Davi and Portugal (2020), Goldman et al. (2009), Nardi et al. (2020)
	Independent	
(2) U$ don cands	Amounts in Dollars (US$) of donations made by individual shareholders to candidates in the three electoral cycles	Aggarwal et al. (2012), Baltrunaite (2020) e Bonica (2016)
(3) U$ don part	Amounts in Dollars (US$) of donations made by individual shareholders to political parties in the three electoral cycles	
(4) Nº don cand	Number of individual shareholders donors to candidates in each firm in the three electoral cycles	Burris (2001), Gordon et al. (2007), Ovtchinnikov and Pantaleoni (2012)
(5) Nº don part	Number of individual shareholders who donate to political parties in each firm in the three electoral cycles	
(6) Nº recipient 1	Number of candidates who received donations made by individual shareholders in each firm in the three electoral cycles	Baltrunaite (2020), Bonica (2016), Burris (2001), Cooper et al. (2010)
(7) Nº recipient 2	Number of political parties that received donations made by individual shareholders in each firm in the three electoral cycles	

Note. Source: Prepared by the authors (2021).
Note: (1) Market value (ln); (2) Amount donated to candidates; (3) Amount donated to parties; (4) Number of Shareholders donating candidates; (5) Number of donor shareholders to parties; (6) Number of applicants who received donations; (7) Number of parties that received donations.

We used the techniques of Analysis of Variance (ANOVA) and multiple linear regression through unbalanced panel data and fixed effects. The correlation matrix (Table 2) reveals significant correlations between the dependent variable and the independent variables. However, these are expected correlations, as they are very similar variables. The highest correlation coefficient found is for the variable *asset* (0.84) which is an opposite variable to our dependent. The Variance Inflation Factor (VIF) test corroborates the correlation matrix, as it did not demonstrate multicollinearity between the variables. Therefore, the general equation of the model is as follows:

$$MV(ln) = \beta 0 + \beta 1 * Value_{it} + \beta 2 * N\_Doa_{it} + \beta 3 * N\_Receptor_{it} + \Sigma \beta n * Cont_{it} + \varepsilon\_it$$

Where, $MV\ (ln)$ is the market value of the firms, β0 is the intercept, $\beta 1 * Value$ represents the variables related to the amounts donated in political electoral campaigns for candidates and political parties, β2*N_Doa represents the variables related to the number of individual shareholders who donated to candidates and political parties, β3*$N\_Receiver$ represents the variables related to the number of candidates and political parties who received donations from individual shareholders, Σβn**Cont* represents the control variables of the model and its parameters, and $\varepsilon_{\_it}$ is the error component of waste.

4. RESULTS

Table 2 presents information on descriptive statistics and variable correlations. Our study included 3,828 observations firms/year, and 802 had donor individual shareholders, both candidates and parties, that is, 21% of the sample made donations. As for donations to candidates, we identified that 772 firms/year make donations (20%). A smaller percentage was identified for donations to parties (8%), that is, 286 firms/year. An interesting fact refers to the fact that individual shareholders have a preference for donations in the candidate modality, only 1% of firms/year donate solely to parties.

Table 2. **Descriptive statistics and variable correlation matrix**

Variables	Mean	Std. Dev.	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
(1) MV (ln)	12.60	2.36	1									
(2) U$ don cands	19,249	105,230	0.13*	1								
(3) U$ don part	15,725	117,561	0.09*	0.49*	1							
(4) Nº don cand	0.37	1.31	0.16*	0.50*	0.24*	1						
(5) Nº don part	0.14	0.59	0.10*	0.48*	0.61*	0.38*	1					
(6) Nº recipient 1	1.16	5.03	0.15*	0.92*	0.32*	0.60*	0.48*	1				
(7) Nº recipient 2	0.17	0.79	0.10*	0.60*	0.66*	0.39*	0.73*	0.52*	1			
(8) Asset (ln)	12.67	2.93	0.84*	0.09*	0.05*	0.07*	0.06*	0.10*	0.05*	1		
(9) NP (win)	49,257	161,947	0.53*	0.09*	0.06*	0.06*	0.07*	0.10*	0.02	0.33*	1	
(10) Equity (win)	671,172	1,290,583	0.64*	0.05*	0.01	0.05*	0.03	0.06*	0.01	0.55*	0.57*	1

Note. Source: Prepared by the authors (2021).
**** p<0.01, ** p<0.05, * p<0.1*
Financial amounts were dollarized.
Note: (1) Market value (ln); (2) Amount donated to candidates; (3) Amount donated to parties; (4) Number of Shareholders donating candidates; (5) Number of donor shareholders to parties; (6) Number of applicants who received donations; (7) Number of parties that received donations; (9) Net profit (win).

We then analyze the data by election year. Regarding firms/year with individual shareholders who made donations, whether to candidates or parties (Table 3), in the 2010 election, 212 made donations (15%), in the 2014 election, the number rose to 272 donors (20 %), and in the 2018 election, 31% made donations (318 firms/year). We analyzed this information between election years, and we noticed that 2018 had an increase of 50% compared to 2010 and 17% compared to 2014. For donations to candidates, in the 2010 election, 204 firms/year made donations (15%), in 2014 the number increased to 256 (18%) and in both years we identified a maximum number of 5 individual shareholders donating per firms/year, in 2018 there is a significant increase in the number of shareholders donating to candidates, with 30 % of the sample (312 firms/year) and with a maximum of 32 individual shareholders. Between the election years, we saw that 2018 had an increase of 53% compared to 2010 and 22% compared to 2014. As for donations to political parties, the results lead us to infer that the same logic of donations was not applied to candidates. In 2010, 64 firms/year donated (5%), and with a maximum of 5 donor individual shareholders, in 2014 the number rose to 132 (10%) and 7 donor individual shareholders, however, for the 2018 election, there was a reduction in the percentage of firms engaged (9%) in relation to 90 firms/year donors and the maximum number of individual donors dropped to 3. Analyzing the information on donations to parties between election years, we saw that 2018 had an increase of 41% compared to to 2010 and a 32% reduction compared to 2014 (however, with a lower number of individuals donating). Such descriptive evidence leads us to believe in the increase in donations through individual shareholders after the implementation of the law that regulated donations in Brazil, especially in the candidate modality.

Table 3. **Firms with donor shareholders for candidates and political parties**

Election year	**2010**	**2014**	**2018**
Firm / year	1,392	1,392	1,044
Firm with donor shareholders	0.15	0.20	0.31
Firm with candidate donor shareholders	0.15	0.18	0.30
Firm with party donor shareholders	0.05	0.10	0.09
Maximum number of donor shareholders for candidates	5	5	32
Maximum number of donor shareholders to parties	5	7	3

Note. Source: authors (2021).

The total amount donated by individual shareholders of firms/year to candidates and parties (Table 4), we observe an increase in donations. While 2010 represented 23% of the total donated, 2014 kept 32% and 2018 represented 45%. In the 2010 election, individual shareholders donated US$ 2.5 million to candidates, an average of US$ 7.2 thousand. In 2014, the average was 16,600 dollars and the total value rose to 5.8 million dollars. In 2018, with an average of US$38,800, a total of US$13.5 million was donated by individual shareholders, that is, of the total donated in the period surveyed (US$21.8 million), 62% was carried out in 2018. The same analysis was carried out for donations to political parties. The logic for increasing donations found previously was not identified. While the 2010 and 2014 elections did not show considerable differences, there was a reduction in the values of the 2018 election. In the 2010 election, individual shareholders donated the amount of US$ 6 million (38% of the total amount donated in the 3 electoral cycles), in 2014 the amount was maintained (US$6.2 million) (39% of the total) and in 2018 US$3.7 million were donated. Thus, of the total donated in the researched period, US$ 16.1 million, 2018 represented 23% of this amount.

Table 4. **Total amount (US$) donated by individual shareholders to candidates and parties**

Election year	Obs	Average by firm	Average by candidate	Average by party
2010	1,392	25,003.50	7,211.38	17,792.10
		(192,694.90)	*(41,865.07)*	*(155,305)*
2014	1,392	34,584.40	16,625.29	17,552.70
		(175,296.50)	*(80,405.20)*	*(108,291.50)*
2018	1,044	49,333.60	38,800.26	10,533.40
		(212,824.20)	*(170,547.80)*	*(53,542.07)*

Note. Source: authors (2021).
Values are represented in percentage of donations. Standard deviations are in parenthesis.

Still, a relevant analysis for this study is to understand the donation strategies of individual shareholders. In other words, when the individuals shareholders decide to donate to political electoral campaigns, they must also choose to whom and to how many candidates and parties the donations will be destined. Just as we observed an increase in the amounts donated (Table 4), in donations via individual shareholders to candidates, we observed an increase in all election years in the number of candidates and comparing both 2010 and 2014 with the year 2018, the increase is even higher. If in 2010, the average was below 0.4 candidate, in 2014 was around 1 and in 2018 we observed an average of 2.56 candidates. Regarding donations to political parties, there was no increase in the number of parties per donor in the three electoral cycles. Thus, Table 5 summarizes this information.

Table 5. **Number of candidates and parties that received donations from individual shareholders**

Year	Firm / year	Average candidates by firm	Maximum candidates by firm	Average parties by firm	Maximum parties by firm
2010	1392	0.37	13	0.12	7
		(1.35)		*(0.75)*	
2014	1392	0.90	28	0.19	7
		(3.64)		*(0.83)*	
2018	1044	2.56	72	0.20	5
		(8.35)		*(0.79)*	

Note. Source: authors (2021).
Values are represented in percentage of donations. Standard deviations are in parenthesis.

After the descriptive analysis of the data, we present the tests performed to analyze the hypotheses proposed in the statistical software Stata IC 16©. For Hypothesis H1 we performed tests through ANOVA in order to compare the means. The results show a significant difference in the amounts donated to candidates between the years 2010 (U$7.211) and 2014 (U$16.625) statistically significant ($p<0.059$). This difference is even greater when compared between the last election year before regulation, 2014 ($16,625) and the first election year after regulation, 2018 ($38,800), also is statistically significant ($p<0.000$). Therefore, after the regulation of corporate donations, there was an increase in donations from individual shareholders to candidates. This finding is supported by the idea that in developing countries, such as Brazil, the political connection becomes more valuable (Davi & Portugal, 2020). Brazilian firms can, from individual shareholders, maintain the connection within the political arena. Furthermore, previous studies have shown that individuals who engage in campaign donations think of their economic interests, they can use the donation as a signal to obtain benefits for the firm (Bonica, 2016; Gordon et al., 2007; Ovtchinnikov & Pantaleoni, 2012) in which they have invested capital. The amount donated to political parties were not statistically significant. There was no increase in donations from individual shareholders to political parties. This finding might be in line with the frequent exchanges of parties by candidates (Desposato, 2006). Weak party loyalty may have encouraged individual shareholders to donate more to candidates than to parties in an individual-individual relationship after regulation.

We also test the number of candidates and parties that received donations. The results show a significant difference between the number of candidates who received donations in the years 2010 (0.37) and 2014 (0.90), statistically significant ($p<0.021$). When comparing the last election year before regulation, 2014 (0.90) and the first election year after regulation, 2018 (2.56), we noticed a greater difference statistically significant ($p<0.000$). Therefore, after the regulation of corporate donations, there was an increase in the number of candidates supported by individual shareholders. Previous studies on corporate donations found that firms sought to diversify candidates to ensure political coverage (Davi & Portugal, 2020; Goldman, et al., 2009). Although the donations made by individuals, the political preferences are considered (Ansolabehere et al, 2003; Burris, 2001). Individuals can choose to donate to the political arena on behalf of their firms. In addition, the very heterogeneity of personal interests within firms tends to ensure diversification (Bonica, 2016) Regarding, the number of parties that received donations, we observed a significant difference between the years 2010 (0.11) and 2014 (0.19) with statistical significance ($p<0.045$). However, despite the small difference between the last election year before regulation, 2014 (0.19) and the first election year after regulation, 2018 (0.20), there was no statistical significance. Thus, after the ban on corporate donations, there was no significant increase in the number of political parties supported by individual shareholders of Brazilian firms. It is possible, as mentioned above, that this result is related to weak party loyalty in the country (Desposato, 2006), making electoral affiliation less useful (Boas et al., 2014). Thus, we can support the hypothesis H1 for both amount donated and the number of candidates that receive donations. However, it is possible to infer that the variables related to political parties do not support the tested hypothesis (H1).

The tests for Hypotheses H2, H3a and H3b were performed using multiple linear regression with fixed effects. The relevant inferences for Hypothesis H2 are presented in Table 6 where the model of main interest is 1.5. We run the values donated to candidates (Model 1.5), and parties (Model 1.5), both with positive and significant results (β = 5.61e-07, $p < 0.01$; β = 7.73e-07, $p < 0.05$) respectively. The engagement of individual shareholders with donations to candidates (Model 1.5) was positive and significant ($\beta = 0.0462$, $p < 0.05$), while for parties (Model 1.5) was negative and significant ($\beta = -0.248$, $p < 0.01$). Such empirical support the Hypothesis H2, according to which the amount donated and the number of individual shareholders in donations to candidates and parties positive association with the firm's market value, where shareholders have their capital invested.

Table 6. **Regression of submodels 1.1 to 1.5 regarding Hypothesis H2**

Variable	**Dependent variable: (1) MV (ln)**				
	Model 1.1	**Model 1.2**	**Model 1.3**	**Model 1.4**	**Model 1.5**
(2) U$ don cands	3.43e-07		5.41e-07**		5.61e-07***
	(2.16e-07)		(2.55e-07)		(1.87e-07)
(3) U$ don part	6.01e-07		1.24e-06*		7.73e-07**
	(5.27e-07)		(6.41e-07)		(3.28e-07)
(4) Nº don cand		0.0450*	0.0290		0.0462**
		(0.0261)	(0.0268)		(0.0183)
(5) Nº don part		-0.0697	-0.316***		-0.248***
		(0.0643)	(0.0862)		(0.0561)
(8) Asset (ln)				0.780***	0.770***
				(0.0784)	(0.0750)
(9) NP (win)				1.19e-06***	1.13e-06***
				(1.45e-07)	(1.42e-07)
(10) Equity (win)				2.29e-07***	2.35e-07***
				(7.71e-08)	(7.39e-08)
Constant	12.58***	12.59***	12.60***	1.896*	2.009**
	(0.0122)	(0.0168)	(0.0138)	(1.029)	(0.982)
Observations	2,502	2,502	2,502	2,477	2,477
Number of firms	279	279	279	278	278
r²_w	0.011	0.003	0.028	0.391	0.408
r²_b	0.018	0.002	0.001	0.767	0.765
r²_o	0.014	0.004	0.002	0.730	0.730

Note. Robust standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1.
Note: (1) Market value (ln); (2) Amount donated to candidates; (3) Amount donated to parties; (4) Number of Shareholders donating candidates; (5) Number of donor shareholders to parties; (9) Net profit (win).

Previous studies of individual donations have already portrayed the expectation of a positive return on the firm's financial indicators. Gordon et al. (2007) observed that the political contributions of the CEO, president and board chair can promote changes in the firm's profitability. Ovtchinnikov and Pantaleoni (2012) argue that general individual contributions are associated with better corporate operating performance. Therefore, our study demonstrate that individual shareholder's donation show a positive association with the firm's market value. In addition, the corporate donations literature already reported that firms make donations expecting higher market values (Cooper et al., 2010; Davi & Portugal, 2020; Jayachandran, 2006; Shon, 2010). We also found that the participation of individual shareholders in donations to political parties had a negative relationship with market value. The number of political parties is believed not to influence, since there is an amount donated by the public funds called the party found. Furthermore, in the Brazilian context there are frequent exchanges of parties for candidates (Desposato, 2006), making electoral affiliation less useful (Boas, et al., 2014).

Hypothesis H3a states that the number of candidates who receive donations from individual shareholders has a positive relationship with the firm's market value. Our variable considers the number of candidates who received such donations (Model 2.3 in Table 7). The tests did not show significant results, demonstrating that the market does not care how many candidates receive donations from individual shareholders. This result seems to be at odds with the understanding of individual shareholders, who, donate to more candidates between election years. It also differs from corporate donations in that the number of candidates supported is positively correlated with future returns (Cooper et al., 2010). Our study identified that the number of candidates supported by individual shareholders of Brazilian firms is not related to market value. The balanced (Aggarwal et al., 2012) and diversified (Davi & Portugal, 2020; Goldman et al., 2009) approach to corporate donations was maintained in donations by individual shareholders, but for the market the important thing is to have political connection, the number of applicants benefiting from donations is indifferent.

Table 7. **Regression of submodels 2.1 to 2.3 regarding Hypotheses H3a and H3b**

Variable	**Dependent variable: (1) MV (ln)**		
	Model 2.1	Model 2.2	Model 2.3
(6) Nº recipient 1	-0.00221		0.00781
	(0.00928)		(0.00568)
(7) Nº recipient 2	0.162		0.0649
	(0.133)		(0.0772)
(8) Asset (ln)		0.780***	0.774***
		(0.0784)	(0.0760)
(9) NP (win)		1.19e-06***	1.16e-06***
		(1.45e-07)	(1.45e-07)
(10) Equity (win)		2.29e-07***	2.35e-07***
		(7.71e-08)	(7.47e-08)
Constant	12.57***	1.896*	1.945*
	(0.0183)	(1.029)	(0.994)
Observations	2,502	2,477	2,477
Number of firms	279	278	278
r^2_w	0.015	0.391	0.398
r^2_b	0.008	0.767	0.769
r^2_o	0.008	0.730	0.733

Note. Robust standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1.
Note: (1) Market value (ln); (6) Number of candidates who received donations; (7) Number of parties that received donations; (9) Net profit (win).

In Hypothesis H3b, we claim that the number of political parties that receive donations from individual shareholders is not related to the firm's market value. Our variable considers the number of political parties that received such donations. The variables were tested together in model 2.3, and did not return significance. Thus, empirical evidence suggests supporting Hypothesis H3b, as they did not demonstrate a positive or negative relationship with the market value of firms. We believe that the number of political parties benefiting from individual shareholders donations is not related to the market value of the firms in the sample, since in Brazil, since the regulation of donations corporate, there is public funding for elections (the so-called party found). Furthermore, we consider that the frequent exchanges of parties (Desposato, 2006), which made electoral affiliation less useful (Boas et al., 2014), makes diversification less interesting in the eyes of the market. Again, the important thing is to have a political connection.

5 CONCLUSIONS

Contributions to political electoral campaigns have established themselves as an important CPA mechanism. A large number of studies have focused on corporate contributions and benefits to donor firms (eg, Boas et al., 2014; Claessens et al., 2008; Cooper et al., 2010; Davi & Portugal, 2020; Jayachandran 2006; Shon, 2010). However, little attention has been paid to contributions made by individuals affiliated to these firms (Bonica, 2016), mainly by individual shareholders and the relationship of these contributions with the value of firms where they have invested capital. Thus, our study focused on the Brazilian scenario, where corporate contributions were banned from 2015 and we seek to understand what has changed in Brazil after the ban on corporate contributions for political campaigns. The media has shown that individual shareholders made contributions during the 2018 campaign elections in Brazil. However, we still do not know what the relationship of these contributions with benefits for firms is where they have invested capital.

Our results demonstrate that, after the regulation of corporate contributions in Brazil, there was an increase in contributions from individual shareholders of Brazilian firms to political candidates. Demonstrating that the firms maintained their connection with the political arena, so valuable to developing countries like Brazil (Davi & Portugal, 2020). We understand that individuals who engage in campaign contributions can use the donation as a signal to gain benefits for the firm (Bonica, 2016; Gordon et al., 2007; Ovtchinnikov & Pantaleoni, 2012), where they invested capital. On the other hand, the amounts donated to political parties did not follow the same logic. Weak party loyalty (Boas et al., 2014; Desposato, 2006) may have encouraged individual shareholders to donate more to candidates than to parties in an individual-individual relationship. Another discovery was about the individual shareholder's donation strategy, for how many candidates and parties the donations were destined to. We verified an increase in the number of candidates supported by these shareholders, corroborating studies already carried out with corporate donations, which highlight balanced (Aggarwal et al., 2012) and diversified (Davi & Portugal, 2020; Goldman et al., 2009) beneficiaries. However, the same did not happen with political parties, with no growth in the number of beneficiaries, as mentioned above, perhaps this result is related to weak party loyalty (Boas et al., 2014; Desposato, 2006).

Through the political campaign contributions of the firm's individual shareholder, it is possible to signal to politicians and the market that the firm access to benefits and information is still available. When testing our dependent variable, we found a positive association between the contributions made by individual shareholders and the market value of the firms where they have their capital invested. That is, we argue that the market welcomes this engagement of individual shareholders with the policy, corroborating the corporate contributions literature that reported that firms make donations expecting higher market values (Davi & Portugal, 2020; Jayachandran, 2006; Shon, 2010). However, regarding diversification, our study identified that the number of candidates or parties supported by individual shareholders of Brazilian firms is not related to market value. This result is in line with studies already carried out with corporate contributions, especially regarding donations to winning candidates (Samuels, 2001). However, other corporate giving studies report that the number of candidates supported is positively correlated with future returns (Cooper et al., 2010).

Thus, our article contributes to the literature on non-market strategies and CPA, mainly in relation to studies on contributions to the political campaign by presenting results of contributions from individual shareholders. We show that firms may be substituting corporate contributions for donations contributed by their individual shareholders and that this, at least for market value, is positive. We understand that the signaling of the political connection to the market also occurs through the contributions of individual shareholders, the firm continues to signal its access to the public political process. However, the diversification of contributions to the campaign did not show a significant relationship with market value, which suggests that for the market, it is important to maintain the political connection, regardless of the number of candidates and parties beneficiary from the donations.

It is true that our work has limitations. We focus on the market value of companies with individual donor shareholders. Expanding the data in this database can bring different results. For example, we only consider the individual shareholder with shares in the analyzed company, we do not consider shareholders with shares in company holdings, nor do we consider CEOs, presidents and members of the board of directors. Future research may include more business-related donors. They can also test other dependent variables, for example, focusing on the operating results of related companies. Furthermore, our results did not show a relationship, positive or negative, with the number of candidates and political parties that received donations. Previous research on corporate donations has identified strategies to contribute to likely winners (Burris, 2001; Samuels, 2001). Future research may include election winners and losers and whether the winners are part of the government's position caucus in the database.

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