

Do birds of a feather donate together?

Political donations in the Mexican Stock Exchange

ABSTRACT

Firms engage in corporate political activity expecting benefits once the political party or candidate they supported is in office. When firms interact through the interlocking boards of directors, they exchange information to reduce uncertainty. In this paper, we analyze the Mexican presidential election of 2006 to understand if firms “of the same feather” show a similar behavior regarding their corporate political activity, specifically political donations. Results show centrality of a firm plays an important role in their political donation strategy. We contribute to nonmarket strategy research set in emerging economies, showing the importance of firm connections for political strategy.

Keywords: political donations, nonmarket strategy, board of directors

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"Byrdes of on kynde and color flock and flye allwayes together."

William Turner, 1545

INTRODUCTION

“Birds of a feather flock together” is a popular proverb attributed to William Turner in the 16th century (Speake, 2015) that can be useful to illustrate the relationships of firms through the interlocking boards of directors. Through board interlocks, directors sit in different companies, thus sharing ideas, information, and knowledge (Galaskiewicz & Wasserman, 1989). These exchanges help firms reduce uncertainty, which is one of the main ideas behind the concept of institutional isomorphism proposed by institutional theory (DiMaggio & Powell, 1983). Thus, we can assume that the firms that are more similar, like the birds mentioned by Turner, will eventually come together and act alike.

The premise behind institutional isomorphism is that firms will mold their strategy after those organizations that seem more successful in order to gain legitimacy (Boxenbaum & Jonsson, 2008). Besides reducing uncertainty and increasing legitimacy by connecting with each other, firms that are also politically connected reduce the information asymmetry between business and politics (Wellman, 2017). It is through the implementation of a nonmarket strategy that firms influence their environment and the institutional context in which they operate by adapting the “rules of the game” to their favor (Funk & Hirschman, 2017; North, 1990). So, if “birds of a feather flock together”, does it mean that firms connected through their boards of directors will follow a similar corporate political activity?

By implementing corporate political activities such as political donations or lobbying, firms expect that they will be benefited once the political party or candidate they supported is in office (Boas, Hidalgo, & Richardson, 2014). Firms interact with one another in a network; therefore, we could expect that those who are more connected through their boards of directors, will support similar parties or candidates. The main objective of this research paper is to understand if firms “of the same feather”, this is that are closely connected with others, show a similar behavior regarding their political strategy (“flock together”). For achieving this objective, we study the network of firms listed in the Mexican Stock Exchange and their interlocking directorates during the 2006 Mexican presidential election marked by heightened political uncertainty (Domínguez, 2012).

This research helps advance the understanding of the importance of connections between firms through board interlocks in the context of political donations. The findings contribute to the nonmarket strategy literature, focused on political strategy in emerging economies which has been under-researched due to the difficulty of obtaining data on political donations. It also will assist managers in understanding the relevance of the firm's network when incurring in political donations. Finally, the findings can be helpful to create and shape public policy regarding regulation of firm's political donations in countries in which individuals donate to political parties and candidates.

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

The literature has acknowledged that for firms to be successful in the long-term, besides a competitive advantage, they need to integrate both market and nonmarket strategies (Baron, 1995). We follow Dorobantu, Kaul, and Zelner's (2017, p. 117) conception of nonmarket strategy which includes "the strategies that firms use to address high institutional costs of using the market". The nonmarket strategy of firms can thus take the form of corporate social responsibility (hereafter CSR) or corporate political activity (hereafter CPA), and both are used to reduce uncertainty by creating social and political goodwill (Mellahi, Frynas, Sun, & Siegel, 2016). In this paper we will focus on one of the forms of CPA: political donations.

Firm-network influence on political donations

Board interlocks, the "ties among organizations through a member of one organization sitting on the board of another" (Borgatti & Foster, 2003, p. 996), have been linked to determine similarity of political behavior between firms (Mizruchi, 1990). In institutional theory, board interlocks have been recognized as "conduits of information", in which director-individual level behavior is linked to firm-level behavior, since directors "carry" from one board to the other what they acquire in the different boards in which they sit (Krause, Wu, Bruton, & Carter, 2019). Research by Haunschild (1993) found that dissemination of information that is passed through board interlocks is a result of firms copying the behavior they observe in their business partners. Thus, as it has been found in previous research, board interlocks serve as a passage through which firms gather information and adopt behaviors that will provide them with legitimacy. This practice is especially critical in times when the firm faces uncertainty, such as an election in an emergent economy.

According to Traag (2016), the contagion of donations is affected by the structure of the network. The key for detecting which firms are more influential for the establishment of CPA is to understand if firms which are close or farther away from the focal firm are the ones with greater influence. When firms have shared directors, as it has been previously mentioned, these “conduits” will provide first-hand information and firms will tend to follow what other firms in their group are doing, thus having similar donation behavior (Burriss, 2005). Central firms are those that are more “important” in the network, because they are connected to a larger number of firms through their participation in different boards of directors. In network theory, it is said that a firm with these characteristics is more central.

Corporate political donations serve as a mechanism for firms to gain access to the government and shape the “rules of the game” (Lu, Shailer, & Wilson, 2016). In a typical political scenario occurring in many countries, we have managers and firms on one hand and politicians and political parties on the other. For instance, managers need to navigate through uncertainty and develop a political strategy that will help their firms minimize the external influence received, while maximizing their influence towards the government. On the other end, politicians and political parties need both industry knowledge and funds for election and/or reelection. So, politicians turn to firms for both information and monetary support (Schuler, Rehbein, & Cramer, 2002).

When documenting the Australian case, Harrigan (2017) explains that political donations have been traditionally been thought of in two continuous dimensions: (1) size of donation and (2) relative preference. We will use these dimensions for studying corporate political donations, since they both signal different aspects of the firm’s donation strategy.

Size of donation

The practice of giving donations to politicians is performed in many countries. However, depending on the country of operation and the level of political resources, there are variations set by the laws and regulations in each place (Zhang, Marquis, & Qiao, 2016). Size of donation is a straightforward measure that shows the quantity of money contributed to a political party or candidate or even if there was not a donation at all (Heerwig & Murray, 2018). These donations can be made by individuals (Ovtchinnikov & Pantaleoni, 2012), corporate directors (Lu et al., 2016), PACs (Tripathi, 2000), or firms (Harrigan, 2017). Also, donations can be directed towards a specific political party (Acker, Orujov, & Simpson, 2018; Fink, 2017) or candidate (Bronars & Lott, Jr., 1997). The maximum amount that can be donated is usually limited by the local laws and regulations (Alzola, 2013).

Donations can vary in terms of their intensity, that is the monetary value of the donations (Bond & Harrigan, 2014). Research in developed economies has found that firms engaging in campaign contributions achieve up to 20% higher economic value than those who do not (Lux, Crook, & Woehr, 2011). The effect of giving donations can also be seen in emerging economies such as Brazil, where research found that higher contributions led to higher stock returns (Claessens, Feijen, & Laeven, 2008). This leads to our first hypothesis:

H1 Firms with more connections will tend to have a greater size of donation.

Relative preference

Relative preference refers to the division of the political donation to different political parties or candidates (Harrigan, 2017). Political donations are varied and may be directed to candidates or parties with ideological affinity, but also to other recipients to minimize risk. Brunell (2005) found that donations are given to less-preferred political parties to reduce possible impacts if elections do not favor the preferred candidates. So, donations can follow the ideology of the donor or can also be used as a hedge if it serves the donor's purpose of reducing uncertainty.

Regarding relative preference there exists the concept of "split-giving", this is when a firm donates to more than one party or candidate simultaneously. In the United States, the practice of split-giving is rare, partly because of the by-laws of PACs which prohibit such practice (Morton & Cameron, 1992). Mizruchi and Koenig (1986) found that in the 1980 election, split-giving represented less than 2% of all contributions. Bronars and Lott (1997) interviewed 20 PACs and respondents commented that simultaneous donation is done only under exceptional circumstances. Also, with more demands on transparency regarding the source of political contributions in developed economies, firms need to be careful of engaging in split-giving, since information on their political behavior will be known by the general public (Kolev & Jiwani, 2018). Evidence of split-giving practices in emerging economies was not found. However, one might expect that in a weaker institutional setting and with reduced transparency of these type of transactions, it could be possible for firms in emerging economies to engage in split-giving if that helps them advance their political strategy, since it will not be monitored or publicized as it is customary in developed economies. This leads to our second hypothesis:

H2 Firms with more connections will tend to have a lower relative preference.

In the next section we will present the proposed methodology to test the presented hypotheses by using the 2006 Mexican presidential election case.

METHODOLOGY

In this section we will detail the sample, the construction of the two databases required for the analysis, and the detail of the measures used.

Sample

One crucial part of the research consists in defining the universe or the network to be studied. It was decided that in order to have access to information on the firm such as the members of the board of directors, the network to be studied needed to be composed of public firms listed in the Mexican Stock Exchange. Public firms are mandated to share annual reports where they list among other information the composition of their boards of directors and their performance. In 2006, there were 143 firms listed in the Mexican Stock Exchange.

Board interlocks database

To the best of our knowledge, there are no public databases with the information of board members of firms listed on the Mexican Stock Exchange. The director's network database was constructed following previous research, in which the information on board composition is manually collected from the firm's annual reports (Connelly, Johnson, Tihanyi, & Ellstrand, 2011; Heemskerk, Fennema, & Carroll, 2016). For building the relationships among the 143 firms in the network, 1653 different directors' names were manually collected from the public annual financial reports. All names were manually screened to homogenize names and last names to have a final list and avoid duplication of a person. Once the list of directors' names was clean of duplicates and standardized, we aggregated the boards to a firm level. As we mentioned earlier, individual director behavior has been linked to resemble firm-level behavior (Krause et al., 2019). Therefore, we believe that the firm's actions can be understood from their board members actions.

Political donations database

The first step for building the political donations database was to map which political parties were active. Mexico is a multi-party system and for the 2006 presidential election there were eight active political parties: PAN (Partido Acción Nacional), PRI (Partido Revolucionario Institucional), PRD (Partido de la Revolución Democrática), PT (Partido del

Trabajo), PVEM (Partido Verde Ecologista de México), CONVER (Convergencia), PANAL (Partido Nueva Alianza), and PASC (Partido Alternativa Socialdemócrata y Campesina).

The documents detailing the donations for political parties in the 2006 presidential election were found on the website of the previous electoral institute (Instituto Federal Electoral – IFE). The information on political donations is divided into two categories depending the relationship of the donor with the political party: (1) donations by members of the party (*militantes*) and (2) donations by supporters not affiliated to the party (*simpatizantes*). We collected documents, both of members and supporters, with detailed information on donations, such as name of the donor, political party supported, amount donated, and date of donation for all eight political parties. Donations received were either in cash or in kind, and made to the political party, not to specific candidates. Manual transcription of the donations took place to build the database of anyone, board member or not, donating to the political parties. The total of donations by political party and type of donor is detailed in Table 1.

Table 1 Donations to political parties in Mexico during 2006 election cycle

Political party	Members	Supporters	Total donations ^{*†}
PAN	301'259'301,28	183'692'349,75	484'951'651,03
PRI	117'475'608,08	8'496'175,03	125'971'783,11
PRD	52'575'102,43	84'161'493,19	136'736'595,62
PT	2'208'090,56	1'536'437,40	3'744'527,96
PVEM	1'046'153,00	1'196'123,62	2'242'276,62
CONVER	-	34'069'720,00	34'069'720,00
PANAL	-	5'226'415,86	5'226'415,86
PASC	2000,00	763'400,16	765'400,16
Total	474'566'255,35	319'142'115,01	793'708'370,36

*Amounts in Mexican Pesos

†Donations include both cash and kind. Parties estimate the value of donations in kind.

As it can be seen, PAN, PRI, and PRD concentrated most of the donations (94% of the total). Therefore, it was decided only to analyze the records for the three bigger political parties to look for potential matches between donors and members of boards of directors of firms listed in the Mexican Stock Exchange in 2006. This means, we analyzed 112'738 records of donations of anyone that donated to PAN, PRI, and PRD in the 2006 election cycle to verify if any of the 1653 directors had contributed with a donation in cash or kind to one of these political parties.

Measures - Dependent variables

Donation amount. This variable represents how much money was donated. The donated quantity is registered in Mexican Pesos (MXN). When the contribution was in kind, the political parties estimated the monetary value of the donation. It is a continuous variable, in which 0 represents that no donation was done by that firm, this is none of the board members in the firm donated.

Relative preference. This variable represents if split-giving is performed by the firm. The coded is from 0 to 3: 0 representing that there was no preference since political donations were not done; 1 that the aggregated donations of all members were to the same political party; 2 that the aggregated political donations were done to two different parties; and 3 that the aggregated political donations were done to the three analyzed political parties.

Measures - Independent variable

Degree centrality. To determine the strength of the relationship between the boards of directors, we will use a network centrality measures that shows us how connected a firm is. Therefore, for this research we use *Freeman Degree Centrality*. This centrality measure is computed by counting the number of directors that are shared between firms. This reasoning is in line with Mariolis and Jones (1982, p. 582), that mention that “the highest level of analysis is the organizational level... The resulting measure is the centrality of each corporation, here given by the number of interlocks.” Thus, firms that share more directors with one another will have a “stronger” bond. This measure estimated for each firm from the relationships collected in the board interlocks database and using the network analysis software UCINET (Borgatti, Everett, & Freeman, 2002).

Measures - Control variables

CEO duality. When the CEO holds both the general manager and president of the board positions there is CEO duality in the firm (Finkelstein & D’Aveni, 1994). The variable is coded 1 if there exists CEO duality and 0 otherwise for each firm-year.

Board size. Represents the number of members that make up the board of directors (Pearce II & Zahra, 1992). The variable is a number which indicates the size of the board for each firm-year.

Board independence. Represents the percentage of independent board members (Weisbach, 1988). The variable is a percentage between 0 and 100 based on the number of independent directors in the board for each firm-year.

Data analysis

We used OLS regression to test the proposed hypotheses using Stata version 13. As mentioned earlier, to obtain the centrality measure we used UCINET version 6.668.

RESULTS

First, we conducted descriptive statistics (Table 2) and a correlation analysis (Table 3) of the variables used in this study. It was decided to scale the variable Donation size, as its original value is in million pesos, which is in a larger scale than the rest of the variables of the study. We decided to divide the value by one million. In Table 3 we observe that most correlations are below ± 0.5 which is expected and desired.

Table 2 Descriptive statistics

Variable	Count	Mean	Standard deviation	Minimum	Maximum
Degree centrality	143	15,371	18,880	0,000	84,000
CEO duality	143	0,287	0,454	0,000	1,000
Board size	143	17,259	7,763	5,000	39,000
Board independence (%)	143	0,394	0,198	0,000	0,920
Donation size*	143	1,650	4,303	0,000	19,904
Relative preference	143	0,587	0,654	0,000	2,000

*Donation size is scaled to 1 million Mexican Pesos (MXN)

Table 3 Correlation matrix

Variable	(1)	(2)	(3)	(4)	(5)	(6)
(1) Degree centrality	1					
(2) CEO duality	0,041	1				
(3) Board size	0,565***	0,053	1			
(4) Board independence	0,208*	0,050	0,197*	1		
(5) Donation size	0,658***	-0,057	0,340***	0,030	1	
(6) Relative preference	0,476***	-0,050	0,228**	0,233**	0,544***	1

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Before running the models, we checked for normality using the skewness/kurtosis tests for normality and the Jarque-Bera normality test. The dependent variable needed correction; therefore, the natural logarithm was used to transform the variable. The dependent variable, this is donations, is estimated in two ways: by size and relative preference. Therefore, two sets of regression models were conducted as it can be seen in Table 4 and Table 5. Each set of tables consists of two models, the first column showing the control variables detailed in the methodology section, and the second column showing our dependent variable.

After running the models, some interesting results emerge. H1 stated that firms with a higher number of connections, this is who are more connected or show greater centrality, will

tend to have a greater size of donations. We can see in the second model (2) in Table 4 that both the predicted sign and the value for H1 is statistically significant. This model has an adjusted R-squared of 0,3198.

Table 4 Donation size

Variables	Predicted sign and Hypothesis	(1)	(2)
CEO duality		-0,706 (-1,40)	-0,758 (-1,74)
Board size		0,0746** (2,74)	-0,00727 (-0,25)
Board independence		0,887 (0,67)	0,533 (0,47)
Degree centrality	H1+		0,0557*** (4,96)
Constant		-1,963* (-2,33)	-1,539* (-2,11)

t statistics in parentheses

* $p < 0,05$ / ** $p < 0,01$ / *** $p < 0,001$

H2 stated that firms with more connections will tend to have a lower relative preference, this is they would not tend to donate to more than one political party. We can see in the model (4) in Table 5 that the result is significant. Nevertheless, the predicted sign was opposite to what was expected. This is interesting because it means that we need further analysis on how firms decide to donate to more than one political party, as the positive sign would mean that the more connected firms donate to more than one party. Finally, it is important to mention that this model has an adjusted R-squared of 0,2336.

Table 5 Relative preference

Variables	Predicted sign and Hypothesis	(3)	(4)
CEO duality		-0,100 (-0,86)	-0,105 (-0,99)
Board size		0,0162* (2,33)	-0,00628 (-0,83)
Board independence		0,657* (2,41)	0,495* (1,98)
Degree centrality	H2-		0,0170*** (5,47)
Constant		0,0771 (0,50)	0,270 (1,85)

t statistics in parentheses

* $p < 0,05$ / ** $p < 0,01$ / *** $p < 0,001$

DISCUSSION, LIMITATIONS. AND FUTURE RESEARCH

We began this paper with question based on a famous proverb: do birds of a feather donate together? Our analyses show that there is a relationship between being a connected firm and donating. This would lead us to confirm that yes, firms that are connected through their board interlocks show a similar political donation pattern. This result is just a first approximation to the complexity of studying corporate political activity. As mentioned earlier, most research on this topic has been conducted in developed economies, which have extensive records of information on CPA such as political donations. However, in the case of nonmarket strategy in general and CPA in particular, context is very important to understand how firms conduct themselves. In a developing country such as Mexico, with a multiparty system, firms have many alternatives. Also, since donation records are not as scrutinized as they are in the United States for example, companies can engage in split-giving.

There are some limitations to this research. First, results are only for Mexico. We could not infer that firms in all developing countries will have a similar behavior. Also, they are limited to the 2006 presidential election. It could be interesting to compare, for the same country, other presidential elections of 2012 or 2018 to see if results are significant over the course of several elections. However, as mentioned in the methodology section, due to the lack of public records, it is a big undertaking to prepare the databases for other electoral cycles.

Further research can take two main directions. Strategy is primarily concerned of showing how firms can obtain a competitive advantage that helps them last over time. So, having a CPA such as political donations is not an end on itself, but a medium for obtaining some benefit for the company. It could be interesting to test if those firms that engaged in political donations, had a benefit after the party or candidate they supported won. This benefit could range from an improved financial performance, to certain benefits such as government contracts. It would also be interesting to research the other side. What happens to those companies that support the losing candidate? Are they in a certain disadvantage? Further analysis is required to understand how supporting the losing candidate could affect the firm's objectives.

Finally, this study is a step in that direction calling for a further and deeper understanding of nonmarket strategy in the context of developing economies. Having a better understanding of how the differences unique these countries, will help managers operating in these contexts

in establishing nonmarket strategies that help their firms. Also, it can be helpful for governments of such countries, to have laws and regulations that prevent any sort of gray area that could harm both the political environment of the country and the business landscape. In the end, having strong monitoring mechanism based on a better understanding of the context will not only provide benefits for the participating firms, but to us all.

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