

Does charitable giving before CEO succession help family firms perform better afterwards?

Giving before a handover lifts family firm value, but governance decides whether investors believe it

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Leadership handovers are the moments when stakeholders look hardest at a family firm. Customers wonder whether the new CEO will honour commitments made by the old one. Banks reprice risk. Investors, who cannot see inside the family, read whatever signals they can find.

A new study argues that one of those signals is the firm's charitable record. Its authors build on the idea that corporate philanthropy works like insurance: giving creates moral capital, a stock of goodwill and trust that cushions a firm when something goes wrong. Earlier research tested that idea against lawsuits, product recalls and external shocks. This paper applies it to a planned, internal event that still unsettles everyone involved, the change of CEO.

The answer is encouraging, with conditions. Giving before succession pays off in market value, but only when the family's governance makes the generosity look sincere.

WHAT WE STUDIED

The authors assembled data on 318 family firms listed on the Shanghai and Shenzhen stock exchanges that went through 412 CEO successions between 2008 and 2016. A firm counted as a family business when a family was its ultimate controlling shareholder, held more than 5% of the voting rights, and had at least two members involved in ownership, management or the board. In 144 of the successions, the new CEO came from the controlling family.

China is a sharp setting for the question. Most of these firms were handing over leadership for the first time, and corporate giving has a long history there.

Charitable giving was measured as the value of cash donations in the year before the succession. Performance was Tobin's Q one year after it, a market-based measure of what investors expect the firm to be worth, and one that is harder to massage than accounting returns. The models control for prior performance, size, profitability, debt, board structure, analyst coverage, the successor's education and experience, and donations made two years before the handover.

Endogeneity got serious attention. A Heckman two-stage model, using the outgoing CEO's age to predict when succession happens, deals with selection into a handover. Firm fixed effects, an instrument based on industry peers' average donations, and propensity score matching all point the same way. So do five robustness tests, including a stricter 10% control threshold and dropping the 2008 financial crisis year.

The theory turns on socioemotional wealth (SEW), the non-financial goals families pursue through their firms. Following Miller and Le Breton-Miller, the authors split SEW into an extended form, oriented outward to reputation and stakeholder relationships, and a restricted form, oriented inward to control and family interests. Outsiders cannot see which one drives a family. They infer it from governance: how much equity the family holds, who the new CEO is, and how many relatives sit in senior management.

KEY INSIGHTS

Giving before the handover is followed by higher value

Firms that donated more in the year before succession had a higher Tobin's Q a year later. The effect is modest in size, yet it survives the full battery of controls and

endogeneity checks. Goodwill banked before the transition appears to steady investors when uncertainty peaks, which gives a family preparing a handover one more lever beyond the succession plan itself.

Heavy family ownership can flip the effect

This is the most striking result in the paper. At low levels of family shareholding, giving and later performance rise together. At high levels, the relationship turns negative. When a family holds a dominant stake, outside investors seem to read donations as a tool for preserving control or serving family interests, and they discount them accordingly. The authors point to Parmalat, where the Tanzi family's grip came with serious conflicts with minority shareholders, as the kind of history that breeds that suspicion. The paper does not report a precise tipping point, so the lesson is directional rather than a threshold to manage towards.

A family successor makes the giving more credible

When the incoming CEO came from the controlling family, the payoff from earlier giving was clearly stronger. With a nonfamily successor, the relationship stayed positive but lost statistical significance. A family CEO signals that the values behind the giving will outlast the transition, and that the person holding those relationships is still in the room.

The founding generation carries the most weight

Almost all of that boost came from successors in the founding generation. For first-generation family CEOs, the interaction with prior giving was large and positive. For second- and later-generation successors, it was negative. The authors suggest that later generations tend to professionalise and chase growth and innovation, so stakeholders are less inclined to see their giving as an expression of enduring family values. Inheriting the charitable record does not mean inheriting the trust that came with it.

Too many relatives at the top undermine the effect

Post-succession performance was highest when three things lined up: substantial giving before the handover, a family CEO, and a low share of family members in the senior management team. A top team crowded with relatives invites perceptions of nepotism and inward-looking priorities, eroding the moral capital the giving was meant to create.

Context shapes the return

In additional tests, the benefit was weaker in provinces with better-developed institutions, higher GDP and, more marginally, strong Confucian traditions. There, giving looks like a baseline obligation rather than a discretionary choice. State ownership in the firm

strengthened the effect, probably because donations read as alignment with national priorities.

TAKEAWAYS FOR FAMILY BUSINESS LEADERS

Treat philanthropy as part of succession preparation

Succession plans usually cover the successor, the timeline and the ownership arrangements. This study suggests the firm's standing with stakeholders belongs on that list as well. Giving that is already established when a handover is announced gives investors a reason to extend the benefit of the doubt to an unproven leader.

Assume governance decides how giving is read

The same donation can build trust or deepen suspicion. Families with a large controlling stake should expect minority investors to scrutinise their generosity, and they can make motives easier to judge:

- Report donations, recipients and selection criteria openly
- Keep family foundation activity separate from company giving where conflicts could arise
- Have independent directors approve significant corporate donations

Choose the top team as carefully as the CEO

A family successor strengthens the effect, while a family-heavy top team weakens it. Families who want both continuity and credibility should pair a family CEO with a professional senior team appointed on merit. The authors also call for monitoring systems that keep conflicts of interest among family executives, and between them and other stakeholders, in check.

Later-generation successors need to make the commitment their own

A second- or third-generation CEO should not assume the founder's reputation transfers with the title. Taking personal, visible ownership of the firm's long-standing causes is one plausible way to close that gap.

IMPACT

The study stretches the insurance view of corporate philanthropy from crises to planned transitions, and it shows that SEW is not a single, uniform motive. For governance research it offers a concrete mechanism: ownership concentration, successor identity and family management act as cues that outsiders use to judge what the family really wants.

The limits deserve mention. The sample covers only Chinese listed firms, whose investors, institutions and giving norms differ from those in Europe or North America, and private family firms face far less market pressure. Tobin's Q captures investor expectations, not employee morale or customer loyalty. SEW is inferred

from governance rather than measured directly. Succession is also treated as a single event, when in most families it unfolds over years. Comparative work across countries, private firms and the phases of succession will show how far these findings travel.

RECOMMENDATIONS

1. Review the firm's giving record two to three years before a planned handover, and make sure it is consistent rather than episodic.
2. Publish clear information on what the firm gives, to whom and why, especially where the family holds a controlling stake.
3. When a family member takes over, have the successor visibly take ownership of existing philanthropic commitments.
4. Keep the share of relatives in senior management low, and fill key roles through transparent, merit-based selection.
5. Put monitoring in place to manage conflicts of interest among family executives and between the family and minority shareholders.
6. Adjust expectations to context: where giving is a social norm, it buys less additional goodwill.

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