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Psychological Contract and Succession Planning Among Small and Medium Family-Owned Businesses in Uganda

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Abstract

Purpose: The study looked into the connection between psychological contract and succession planning among small and medium family-owned businesses in Uganda.

Methodology: The research employed a cross-sectional survey along with descriptive research design with a quantitative approach. Data were collected using a close-ended questionnaire from 176 small and medium family-owned businesses. The data were analyzed using SMART PLS version 23.

Findings: The study established that the three antecedents of psychological contract (behavioral responses, perceived expectations, and perceived obligations) are significantly and positively related to succession planning. Further, the study established no relationship between promises and succession planning among small and medium-sized family businesses in Uganda.

Limitations and implications of the research: The research utilized a cross-sectional survey; however, given the evolving nature of psychological contracts, a longitudinal study is recommended for future research.

Practical implications: Family business founders need to build psychological contract by engaging all family business owners early in the operations and management to understand their expectations and commitments to be able to take over family-owned businesses when the founder retires or dies.

Originality and value: Building psychological contracts with all family members is most likely to mitigate future family conflicts and align all family members towards supporting succession planning to reduce the family owned business failure rate in Uganda using Goal Setting Theory.

Categories: SME Entrepreneurship, Entrepreneurship in developing nations, Sustainable entrepreneurship
Keywords: small and medium enterprises, family-owned businesses, psychological contract, succession planning, uganda

Introduction

Small and medium family-owned businesses contribute significantly to the global entrepreneurial development agenda (Arzubiaga et al., 2018). This is so because they make up the majority of businesses globally, contributing 70% of the gross domestic product and creating 50-80% of related employment worldwide (Miroshnychenko et al., 2020). To ensure that small to medium-sized family-owned enterprises continue to exist and thrive, the business owner must plan for succession among family members and distant relatives because in Africa, distant relatives are major stakeholders for family-owned business continuity (Larino et al., 2023). However, there remains limited understanding on how succession planning is managed in such complex environments involving multiple stakeholders. It is therefore worth noting that succession planning is the process by which business owners select and mentor potential successors with whom they are socially connected, to ensure the continuity of the family business after the founder dies or retires from active business operations (Calabrò et al., 2021). Since the retirement or death of the business founder creates a vacant position, succession planning ensures that such vacant positions are filled immediately without affecting the family business's operations and management for continuity (Larino et al., 2023). It has been noted that 70% of related family businesses fail to successfully transition to the second generation while 90% fail to transition to the third generation (Zapata-Cantu et al., 2022) and (Mokhber et al., 2017). This is attributed to the family business founder's failure to plan for succession, leaving the family business in the hands of relatives who are either not prepared or uninterested in going on with the family business (Mayanja et al., 2024).

Theoretically, previous research on succession planning has used various theories, mainly Agency Theory

(Jensen and Meckling, 1976), Resource-based View Theory (Habbershon and Williams, 1999), Social Emotional Wealth Theory (Gomez-Mejia et al., 2011), Theory of Planned Behavior, and Stewardship Theory (Davis et al., 1997). However, these theories did not capture how family business owners adopt succession planning as an intended goal in a developing context where, for example, in Africa, family is not limited only to biological family members. Upon careful examination, succession planning is embedded in Goal Setting Theory (Kotlar and De Massis, 2013). This is so because setting goals is an antecedent of succession planning. Business owners who have succeeded in planning for who should be in charge of their businesses when they retire have adopted it as a goal. Therefore, Goal Setting Theory (Locke and Latham, 2013) assumes that the mechanism through which a specific high goal results in high performance is the selection or direction of effort. The theory makes a high degree of performance a prerequisite for self-satisfaction by working longer at a task, which prompts a person to use the information and abilities needed to achieve it (Zimmerman, 2008). The business owner is in a position to transfer his business to another generation when it was earlier planned. The planning enables him/her to build trust among people he/she is socially identified with so that he can select and mentor a successor. Therefore, building psychological contracts is an intended move in achieving succession planning.

Empirically, previous scholars have thoroughly explored various aspects of succession planning, that is to say, succession process (Sharma et al., 2001), effective succession planning (Rothwell, 2005), management succession (Ogundele et al., 2012), voluntary succession (Sambrook, 2005), role of women in succession during sudden deaths (Achtenhagen et al., 2017), succession of daughters (Campopiano et al., 2017), strategic flexibility (Bokhari et al., 2020), succession planning strategies and sustainability (Olu and Chima, 2020), gender equality (Olusola et al., 2021), succession planning, and family business failure (Olufemi, 2021). Most recently, Coffie et al. (Coffie et al., 2024) explored succession planning practices and succession success of family-owned businesses, emphasizing the role of leadership style. However, upon further examination, it was noted that these studies did not address how psychological contract involving reciprocated exchanges are managed during the succession process in small and medium family-owned businesses in a developing economy (Madden et al., 2017). Therefore, this research will contribute to the body of knowledge by showing how the business owner builds psychological contract among family members using promises with no expected equal returns as he observes behavioral responses, perceived obligations, and perceived expectations during succession planning in family-run small and medium-sized enterprises in Uganda with a high entrepreneurial index and high failure rate (Mayanja et al., 2024).

Contextually, in Uganda, where the government supports and promotes local entrepreneurship through the newly launched Uganda Fourth Development Plan IV 2024-2030, family-owned small and medium-sized enterprises make up the majority of businesses in Uganda. Despite this, there is a high business failure rate at 67% (Mayanja et al., 2019). According to Kakooza et al. (Kakooza et al., 2023), around 30% of businesses collapse within the year one of their operations and by the fifth year, only 20% of businesses are still in operations. Because of the predominance of small and medium family-owned businesses, the most common failures are family-owned businesses. Among other factors, this is attributed to lack of succession planning where most businesses struggle after the founder's retirement or death and eventually close (Olufemi, 2021). There is also limited literature concerning succession planning in family businesses in this region where a majority of businesses come from extended families. This makes it hard to contextualize and capitalize on the wealth of literature from Western countries. It should be noted that from a cultural context, in Africa, succession planning is a secret subject that is only talked about after the death of the founder embedded or disclosed in a written will (Kifordu, 2024). It is also not allowed for daughters to be heirs to the business which creates a power vacuum in critical times where daughters would be looked at as an option to fill the vacant position. The girl child is expected to be prepared for marriage rather than heading the family-owned business, even when she has the potential to lead. Additionally, in Africa, it is common to come from a polygamous family and as such, succession planning is left hanging because business owners would rather avoid conflicts than confront them. Their actions to conceal or not to talk about the successor in a polygamous setting is normally intended to protect the selected successor usually the firstborn child of the family and to conceal family secrets from intruders who would eventually feel left out and harm the successor (Kifordu, 2024). However, literature indicates that immediately after the death of the founder, many family members do not agree with the will and the selected successor which becomes the source of conflicts that eventually threaten the future of the family and the business due to perceptions of inequity (Li et al., 2023). Therefore, this study will contribute to the body of knowledge by showing how psychological contract are built by the business founder during succession planning for relatives to accept and support the selected successor for the business and family to carry on following the founder's retirement or passing. According to Madden (Madden, 2017), psychological contracts support enduring connections among family members which promote mutually beneficial exchanges, leading to exceptional commitment and trust. Therefore, the business owner initiates building psychological contracts operationalized using promises, perceived obligations, perceived expectations and behavioral responses (Madden, 2017). The submission of the measurements of the psychological contract ensures that family members prioritize family harmony over personal interests when planning for succession, thereby maintaining business continuity. Therefore, the central research question is: ''What is the relationship between Psychological contract and succession planning?'' To address the central question, this study will be guided by four specific research questions.

RQ1: What is the relationship between behavioral responses and succession planning in small and medium family-owned businesses in Uganda?

RQ2: What is the relationship between perceived expectations and succession planning in small and medium family-owned businesses in Uganda?

RQ3: What is the relationship between perceived obligations and succession planning in small and medium family-owned businesses in Uganda?

RQ4: What is the relationship between promises and succession planning in small and medium family-owned businesses in Uganda?

Following this introduction and contribution, the work is organized as follows: study-related literature, research methods, results, discussion, implications, limitations, and future research areas.

Theoretical foundation

The relationship between psychological contract and succession planning among small and medium-sized family-owned businesses was investigated using Goal Setting Theory (Locke and Latham, 2013). Goal setting is crucial in family business succession planning because it shapes the family's and business's will and enthusiasm to act toward the set goal (Chua et al., 1999). The theory posits knowledge, effort, perseverance, and choice or direction are the factors via which a specific, high objective results in high performance. The theory guides on achieving goals by making self-satisfaction dependent on a high level of performance by working longer at a task which prompts an individual to base upon the existing knowledge/skill required to attain the goal. Rowe (Rowe et al., 2016) assert that goal setting involves identifying a specific goal to pursue within a defined area, with measurable outcomes including performance feedback, commitment, expectancy, intensity, and timelines for achieving it. Therefore, goal setting informs us that succession planning can be successful when the business owner adopts it as a goal to have his business planned and prepared in case of retirement or the sudden death of the business founder. The theory explains that the business founder must acquire and equip himself with the necessary knowledge and skills to engage family members in a way that they express their expectations and commit to supporting the succession plan. Eventually, there will be family harmony which will guarantee that the business can continue operating after the retirement or death of the business founder. In an African context where we have extended family members, the theory explains that as a result of goal setting the family business founder must identify a successor who is acceptable in an extended family and has support in a patriarchal society. Additionally, Rowe et al. (Rowe et al., 2016) further emphasizes that goal setting involves establishing a clear objective within a defined scope, along with measurable indicators such as performance feedback, commitment levels, expectancy, effort intention, and explicit timelines. In the family business context, this suggests that succession planning is more likely to succeed when the business owner intentionally frames succession as a strategic goal, which includes preparing both the enterprise and the family for leadership transition when the founder is no longer active. The founder plays a crucial role in acquiring and applying the necessary knowledge and skills to involve family members in open communication about expectations and to secure their commitment to the succession plan. Therefore, the founder considers it a personal obligation to select someone he trusts and identifies with socially to mentor that individual for the purpose of taking over leadership when he retires.

Hypothesis development

Behavioral Responses and Succession Planning

Behavioral responses refer to employees' discretionary articulation of ideas, information, or opinions intended to influence functional change within the business (Maynes and Podsakoff, 2014). It is known that in family-owned businesses, behavioral responses are shaped by unique dynamics like emotional attachment, generational influence, legacy concerns, and socioemotional wealth (Razzak et al., 2019). This makes family makes family members exchange ideas and opinions, which prioritize discussions based on pursuing protecting family ties rather than pursuing economic gains for the family-owned business. It is, however, not known how family business owners navigate through cultural dynamics and religious dynamics which greatly influence behavioral responses of family members and still voice out opinions in an environment where family loyalty is prioritized over professional competencies. It is crucial to note that in a family business concept, the optimism exhibited by family members, including extended family members, becomes a basis on which trust is built making it easy to communicate the succession plan among family relatives (Madden, 2017).

The relationship between behavioral responses and succession planning was earlier established by Daspit et al. (Daspit et al., 2015) while carrying out research on family businesses in Mississippi (USA). They established that behavioral responses are important for effective succession planning. In the succession planning process, the engagement of all family relatives creates an environment where successors are more likely to transition successfully into leadership roles if they are engaged and show a positive attitude. They provide empirical insights relevant in the Ugandan family business context, where multiple family stakeholders need to be engaged during the succession planning process where family business owners still struggle to communicate succession plans (Umans et al., 2021). When a succession plan has been communicated to family members, behavioral responses become important in understanding how potential successors become recipients of the leadership style, mentorship, and training (Madden, 2017). When potential successors become recipients to leadership style and mentorship, it facilitates knowledge transfer from the incumbent to the potential successors thus facilitating a harmonious transition and leading to successful succession planning (Ahrens et al., 2019). However, despite the existence of behavioral responses among family members, there are situations where it may not lead to succession planning. This is so where behavioral responses make some family members undertake extra-role behaviors where they commit and assert their efforts to focus on family business sustainability and transition (Madden, 2017). At the time of transition, some family members may feel not compensated for their role behaviors thus opting out of supporting the succession plan (Madden, 2017). Therefore, we hypothesize that behavioral responses are positively related to succession planning where family members respond positively in supporting the succession plan, develop trust, adopt communication models, and agree on fair compensation, which are vital in successful succession planning.

H1: Behavior responses are positively and significantly related to succession planning.

Perceived Expectations and Succession Planning

Perceived expectations refers to the attitudes attached to anticipated returns and anticipated efforts arising out of a social exchange relationship. It is already recognized that expectations are crucial in motivation in the family-owned business context where family members base to gauge the amount of effort asserted or commitment in family business activities relative to their perceived expectations (Nelson and Constantinidis, 2017). However, it is not yet known how the family business founders accurately interpret and respond to the perceived expectations of different family members in a polygamous family setting and in an environment where family members include extended family. It is crucial to note based on the fact that the misalignment of perceived expectations of family members can result in conflict, decreased engagement, and fractured trust within the family unit which can subsequently affect the succession planning.

The relationship between perceived expectations and succession planning was earlier researched by Chua et al. (Chua et al., 2003) while studying succession issues among Canadian family firms and established that Succession planning in family-owned small and medium enterprises is influenced by the perceptions of what family members believe is expected of them. Much as these findings were in a developed economy, it should be noted that in a developing context like Uganda, these perceptions can shape whether successors feel obligated, entitled, or resistant to taking leadership roles. When perceived expectations are unclear or unrealistic, succession planning can become fraught with misunderstandings, leading to poor preparation, conflict, or the selection of unsuitable successors (De Massis et al., 2008). Therefore, the family business owner needs to work toward attaining different expectations by cultivating trust and balancing the perceived expectations of all family members, including distant relatives (Li et al., 2023). This will help family members cultivate the same values and work toward the preservation of the family-owned business thus ensuring succession planning. Despite the above findings, it should be noted that in the African context, more so in a developing country like Uganda, creating perceived expectations through the treatment of potential successors, succession planning may not happen because children think that their parents are obligated to look after them. This concurs with the findings of Kidwell et al. (Kidwell et al., 2011), who established that there are situations where potential successors perceive their child-parent relationship with lower expectations, leading to injustice, confusion, and mistrust as the business founder loses confidence in whether the potential successors can be trusted with the family business. We therefore hypothesize that perceived expectations and succession planning are related under circumstances where parents' and potential successors' relationships are shaped to perceive a higher level of expectations and work toward attaining the succession plan.

HI 2: Perceived expectations are positively and significantly related to succession planning.

Perceived Obligations and Succession Planning

Perceived obligations refer to the attitudinal understanding of each party's mutual commitments which are supposed to be fulfilled by each party in the social exchange relationship (Rousseau et al., 2018). It is known that promises and expectations form the foundation on which the obligations are built (Molina, 2023). Additionally, interactions among family members involve the exchange of resources which serves as a foundation for creating obligations between actors (Rodriguez et al., 2022). Therefore, what individuals give, receive, and expect creates a continuum onto which obligations are built, shifting their efforts to focus on their obligations while ignoring the obligations that do not necessarily relate to their expectations regarding the exchange relationship (Rousseau et al., 2018). It is, however, not known how perceived obligations of all family members are nurtured and contained under circumstances where each family member works with different expectations. It is important to know because engagement and obligation are both crucial for successor engagement which is important in succession planning.

The relationship between perceived obligations and succession planning was earlier established by Rodriguez et al. (Rodriguez et al., 2022) while undertaking research on successor willingness to participate in family businesses among Austrian food manufacturing family firms. They established that as a result of perceived obligations, potential successors are most likely to engage themselves in obligations targeted for them to take over the business when their parents retire (Rodriguez et al., 2022). Their findings are consistent with the developing country context where it is noted that successors who internalize a strong sense of duty toward the family-owned business are more likely to assume developmental roles, acquire necessary skills, and align their career trajectories with the goal of eventual succession. The sense of duty emerges not merely from economic incentives but from deeply ingrained family expectations, emotional bonds, and the wish to protect the family's heritage, which fosters them to work willingly in support of the succession plan (Rodriguez et al., 2022). Despite this, in extended family settings, literature does not address the situations where perceived obligations have failed to culminate into succession planning. This is where potential successors realize that despite the support from their parents and the wish to take over the business from the family, the family business is unable to allocate resources to maintain their survival and the interplay of negative experiences emerging out of the exchange relationship (Rodriguez et al., 2022). We therefore hypothesize that perceived obligations are positively related to succession planning when both the potential successors and parents cultivate commitments where the perceived obligations drive motivations aimed at transitioning the family-run enterprise from one generation to another.

H3: Perceived obligations is positively and significantly related to succession planning

Promises and Succession Planning

Promises can be defined as pledge to undertake a future course of action within a social network involving more than one actor with intent of providing a promised person with a benefit in return (Montes and Zweig, 2009). It was established that the actors within a social exchange process engage themselves in a wide range of future intent manifestations, both vocal and nonverbal (Rousseau, 2001). The intention comes as an arrangement of communication and commitment by the enterprise or an agent which is interpreted by members of the enterprise as a promise that can create a psychological contract (Suazo et al., 2009). In a family business context, promises made between the incumbent and the potential successors regarding future leadership transitions within the family can help set expectations, build trust, and guarantee a harmonious transfer of power across generations thus influencing succession planning (Bozer et al., 2017). However, it is not yet known how family business owners make promises based on balancing and considering the interests of all family members more so in an extended family setting. It is vital to note that balancing and considering the interests of all family stakeholders while making promises is the first step to managing conflict (Daspit et al., 2015). The effective management of family conflicts facilitates psychological cohesion and trust among family members, which is critical for fostering collective commitment and ensuring a smooth succession in family businesses (Daspit et al., 2015).

The relationship between promises and succession planning in family businesses was earlier established by Bozer et al. (Bozer et al., 2017) while researching on succession planning in family businesses in Austria. They established that as a result of promises, the next generation develops a sense of ownership and alienation where they encourage each other to work toward enterprise growth and extended sustainability of the family business, thus influencing succession planning (Bozer et al., 2017). Succession planning arises from a sense of alienation among family members, where potential successors see themselves as future leaders, while the father manages the mentorship process through promises, positioning himself as the groomer of the next generation (Bozer et al., 2017). Despite promises being an integral part of succession planning, there are situations amidst promises, where succession planning may not occur. This is because family business founders can find themselves in situations where they fail to fulfill the promises made to different family stakeholders, leading to a breach of psychological contract (Coyle-Shapiro et al., 2019). The breach of promises greatly affects trust leading to decreased attitudes, and lower commitment thus demotivating family members toward achieving a common goal (Coyle-Shapiro et al., 2019). Nevertheless, we hypothesize that promises are positively related to succession planning where the incumbent makes promises and encompasses the family member's interests, thus viewing themselves as the next leaders of the family-owned business and working toward achieving it.

H4: Promises are positively and significantly related to succession planning

Research Method

The research employed a cross-sectional survey, enabling the researchers to obtain a large volume of data from family-owned small and medium businesses at a single time. The study population was 76,639 registered enterprises in the Kampala central business district of Uganda. This is so because Kampala is recognized as Uganda's business hub due to its high business density of 72% existing in micro, small, medium, and large enterprises (Mayanja et al., 2024). Since Kampala has the highest concentration of businesses in Uganda, it can be a representation of the population of businesses which affirms the generalization of the selected businesses (Mayanja et al., 2024). It should be noted that Uganda does not have a predetermined list for family businesses, therefore, the researchers were guided by the sampling methods of Ellard-Gray et al. (Ellard-Gray et al., 2015) and Neuman (Neuman, 2007) while dealing with a hidden population. Scholars suggest using multiple sampling approaches and thinking in terms of several overlapping populations in which victims are a subset (Ellard-Gray et al., 2015) (Neuman, 2007). Therefore, the study used a snowball sampling technique to identify small and medium-sized family-owned businesses from non-family-owned businesses using the referral or chain system. The sample of 215 small and medium family-owned businesses was used in this study, determined by the sample to sample-to-item ratio (Hair et al., 2010) (Hair et al., 2014), who observes that to enrich the robustness of structural equation model results, the sample size used should be commensurate with the number of items used in the study. The minimum ratio of sample to item is 5:1 (Hair et al., 2010). In this study, the total number of designed items was 43. Applying the recommended ratio, the required sample size was calculated by multiplying 43 by 5, resulting in a target of 215 respondents. Therefore, the study aimed to collect data from 215 small and medium-sized family-owned enterprises to ensure adequate statistical power and representation. The sectors covered were trade, manufacturing and service sectors, where 176 responded, representing 81.9%. The response rate is deemed a strong representation of the study population, aligning with established research standards that consider response rates above 60% as credible and reliable for social science research, as it minimizes non-response bias (Hair et al., 2010). The unit of analysis was a small and medium-sized family-owned business that had existed for over 5 years. The unit of inquiry was the family business owner/manager because of their responsibility in succession planning in the family enterprise.

Data collection and sampling procedure: Data from family-owned businesses were collected using a closed-ended questionnaire. The respondents were required to choose appropriate responses from a list of alternatives provided. The research instrument used was anchored on a 6-point Likert scale to avoid middle point answers ranging from agree completely without doubt, very strongly agree, agree most of the time, agree some of the time, disagree, and completely disagree without doubt. The respondents had to express their degree of agreement or disagreement with the relationships between variables under investigation. The researcher identified family-owned businesses from non-family businesses utilizing the snowball sampling procedure. A renowned family business in Kampala acted as a reference point to identify other family businesses. The researchers continued to tap into more family businesses through the references provided and collected more data until the sample size was obtained. The researcher purposefully targeted business owners/managers because they are the ones who are responsible for succession planning in a family business.

Operationalization and measurement of variables: Psychological contract and succession planning were operationalized based on previous scholars as recommended by Podsakoff et al. (2012). Therefore, Psychological contract was measured using promises, perceived expectations, perceived obligations, and behavioral responses (Bordia et al., 2014). The scale for measuring psychological contract was adopted and adapted from empirical literature (Bordia et al., 2014) (Tomprou et al., 2015). Succession planning was measured using trust, social identity, successor selection, and mentorship (Schell et al., 2020) (Schoorman et al., 2007). The researcher used a closed-ended questionnaire anchored on a 6-point Likert scale. Measurement tools previously validated by Podsakoff et al. (2012) were adapted to fit the study's context. The constructs were defined and assessed using concepts from earlier theoretical and empirical studies. Each construct was operationalized through indicators from prior research, modified to suit the realities of family businesses in Uganda. To ensure relevance, the questionnaire items were domesticated and validated by experts and practitioners in the field of family businesses. Their feedback guided further refinements of the instrument. After refinement, the questionnaire was pretested. The pretested questionnaire on psychological contract initially included 25 items, of which 21 were retained. Similarly, the succession planning questionnaire originally contained 28 items, with 24 retained for confirmatory factor analysis.

Common method bias: To address potential common method bias (CMB), which is common with cross-sectional research design, both procedural and statistical controls were implemented, following reputable guidelines (Hair et al., 2010). Survey instruments were carefully designed for clarity and a rigorous pretesting process involving stakeholders and experts in family business succession planning (Podsakoff et al., 2012). Statistically, Harman's single-factor test indicated no single-factor dominance, with 20 factors explaining 73.55% of the total variance. Further collinearity assessment validation revealed inner Variance Inflation Factor (VIF) values below the 3.300 threshold, confirming the absence of significant CMB in the dataset.

Data screening and management: In assessing the quality of the data, the researchers screened for the missing values and results showed that there were missing values below 5% missing completely at random. This prompted the researcher to replace them using linear interpolation method as recommended by Field (Field, 2024). The researchers also screened for outliers using box plots and indeed, outliers existed. To overcome the challenge of outliers, they were replaced by near by cases which were not outliers themselves. We also screened for CMB using Herman's single-factor test as recommended by Field (Field, 2024). Results showed that no single factor could explain at minimum 50% variation in the items that represent a variable, meaning that our data were free from CMBs. We also screened for parametric tests (Hair et al., 2017). We screened for homogeneity of the variance using Levene's test and the results showed that there was equal variance across the different groups of respondents used in the study. We also screened for linearity using the F-statistic, which showed that it was significant, meaning that the dependent and independent variables were linearly related. We further screened for the presence of multicollinearity and the results showed that VIF was below 5 and tolerance values were above 0.2, which proves that our data set was free from the problem of multicollinearity, as illustrated in Table *1* below.

Attributes	Cronbach's Alpha	Composite Reliability	Average Variance Extracted	Variance Inflation Factor
Behavioral responses	.882	.919	.741	2.001
Perceived expectations	.891	.925	.756	1.886
Perceived obligations	.937	.953	.801	2.989
Promises	.910	.933	737	1.963
Psychological contract	.905	.933	.759	2.210
Mentorship	.890	.914	.604	2.031
Social identity	.890	.914	.604	1.991
Successor selection	.944	.953	.692	1.879
Trust	.766	.848	.584	1.509
Succession planning	.857	.901	.637	1.853

TABLE 1: Reliability and validity

Source(s): Primary data

Results from Table *2* show that the highest Heterotrait-Monotrait (HTMT) value is 0.689, indicating that the dimensions of the psychological contract are distinct and separate. This supports their suitability for further analysis (Hair et al., 2017). According to the guidelines by Hair et al. (Hair et al., 2017), discriminant validity is established when HTMT values are below the threshold of 0.900, which is met in this case. Additionally, results from Table *2* show the highest value of the HTMT as .557. This means that the dimensions of succession planning are distinct and separate which guarantees us to subject them to further analysis (Hair et al., 2014). In order for us to conclude that discriminant Validity was achieved using HTMT, the test results should yield values less than 0.900 as per the guidelines of Hair et al. (Hair et al., 2017).

Psychological Contract	BR	PE	PX	PR
Behavioral responses [BR]				
Perceived expectations [PE]	.592			
Perceived obligations [PX]	.591	.786		
Promises [PR]	.689	.786	.813	
Succession planning	MT	SY	SS	TT
Mentorship [MT]				
Social identity [SY]	.557	.473		
Successor selection	.544	.587	.502	
Trust [TT]	.543	.583	.502	

TABLE 2: Discriminant validity using the HTMT

BR, Behavioral responses; PE, Perceived expectations; PX, perceived obligations; PR, Promises; MT, Mentorship; SY, Social identity; SS, Successor selection; TT, Trust; HTMT, Heterotrait-Monotrait

Source (s): Primary data

Results

Descriptive statistics as indicated in Table 3 show that most respondents who participated in the study in terms of gender were male at 94 (53.4%), followed by women, 82 (46.6%). This indicates the dominance of patriarchal families in family-owned businesses in developing countries like Uganda. In terms of the age bracket of the respondents, the majority of the participants (67) 38.1% were in the age bracket of 26-35 years, which indicates the most vibrant age prevailing in family business entrepreneurship and the fact that many of the respondents were successors/business managers who indicate the presence of the second generation in family businesses. In terms of level of education, the majority of the respondents were degree holders (81) 46%, indicating that in family businesses there is a presence of educated people who can run the businesses and also be able to provide information regarding succession planning. In terms of position held in business, the majority were business owners (96) at 54.5%, indicating that the majority of businesses are still operated by the first generation. Further majority of businesses that participated in the study had existed between 5 and 10 years (49.4%), which means that the business owners had enough information regarding the preparedness for succession planning. Regarding business structure, the majority of participating businesses were sole proprietorships at (74) 42%, which indicates the flexibility and the capital requirements needed to run a family-owned business. In terms of capital sources, most businesses relied on their own savings at (75) 42.6% which indicated the funding deficiencies that still exist in Uganda regarding supporting family-owned small and medium family-owned businesses.

Gender of the Respondents	Count	Percent	Cumulative Percent
Male	94	53.4	53.4
Female	82	46.6	100.0
Age range of the respondent	Count	Percentage	Cumulative percentage
18-25 years	39	22.2	22.2
26-35 years	67	38.1	60.2
36-45 years	45	25.6	85.8
46 & above	25	14.2	100.0
Level of education	Count	Percentage	Cumulative percentage
Primary	5	2.8	2.8
Certificate	44	25.0	27.8
Diploma	39	22.2	50.0
Degree	81	46.0	96.0
Postgraduate and above	7	4.0	100.0
Position held in business	Count	Percentage	Cumulative percentage
Business owner	96	54.5	54.5
Successor/Business Manager	80	45.5	100.0
Business age	Count	Percentage	Cumulative Percentage
05-10 years	87	49.4	49.4
11-15 years	48	27.3	76.7
Over 15 years	41	23.3	100.0
Business ownership structure	Count	Percent	Cumulative percentage
Sole proprietorship	74	49.4	49.4
Partnership	33	27.3	76.7
Private registered company	69	23.3	100.0
Source of capital	Count	Percentage	Cumulative percentage
Own savings	75	42.6	42.6
Borrowed money	23	13.1	55.7
Share capital	35	19.9	75.6
Family	37	21.0	96.6
Friends	6	3.4	100

TABLE 3: Demographic characteristics, total N = 176 family businesses

Source(s): Primary data

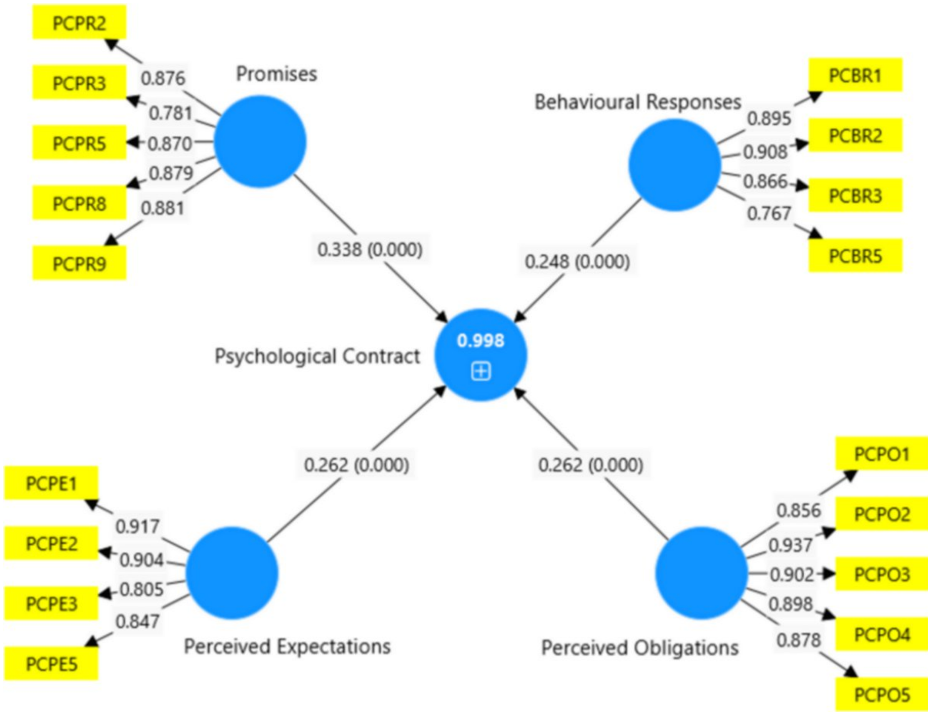

FIGURE 1: Measurement model for psychological contract

PCPR, Psychological contract-promises; PCBR, Psychological contract-behavioral responses; PCPO, Psychological contract-perceived obligations; PCPE, Psychological contract-perceived expectations

Source(s): Primary data

The Confirmatory Factor Analysis (CFA) results from Figure *1* indicate that behavioral responses, promises, perceived expectations, and perceived obligations explain psychological contract. However, promises has the greatest weight in explaining psychological contract with 5 items which survived (β = .338, $p < .05$) followed by perceived expectations and perceived obligations both at (β = .262, $p < .05$) with 4 and 5 items, respectively, which survived. The least contributing factor in explaining psychological contract is behavioral responses at (β = .248, $p < .05$) with 4 items which survived. The bootstrapped estimate figures in Table *4* confirm the above CFA results.

	β	Std. Error	T Statistics	P Values
Behavioral Responses ―► Psychological Contract	.248	.019	12.968	.000
Perceived Expectations ―► Psychological Contract	.262	.015	18.004	.000
Perceived Obligations ―► Psychological Contract	.262	.016	16.545	.000
Promises ―► Psychological Contract	.338	.015	22.140	.000

TABLE 4: Bootstrapped measurement model estimates for psychological contract

Source(s): Primary source

The bootstrap results from Table *4* indicate that promises are the strongest contributor to the psychological contract, accounting for 33.8%, followed by perceived obligations and perceived expectations at 26%. Behavioral responses contribute the least, at 24.8%.

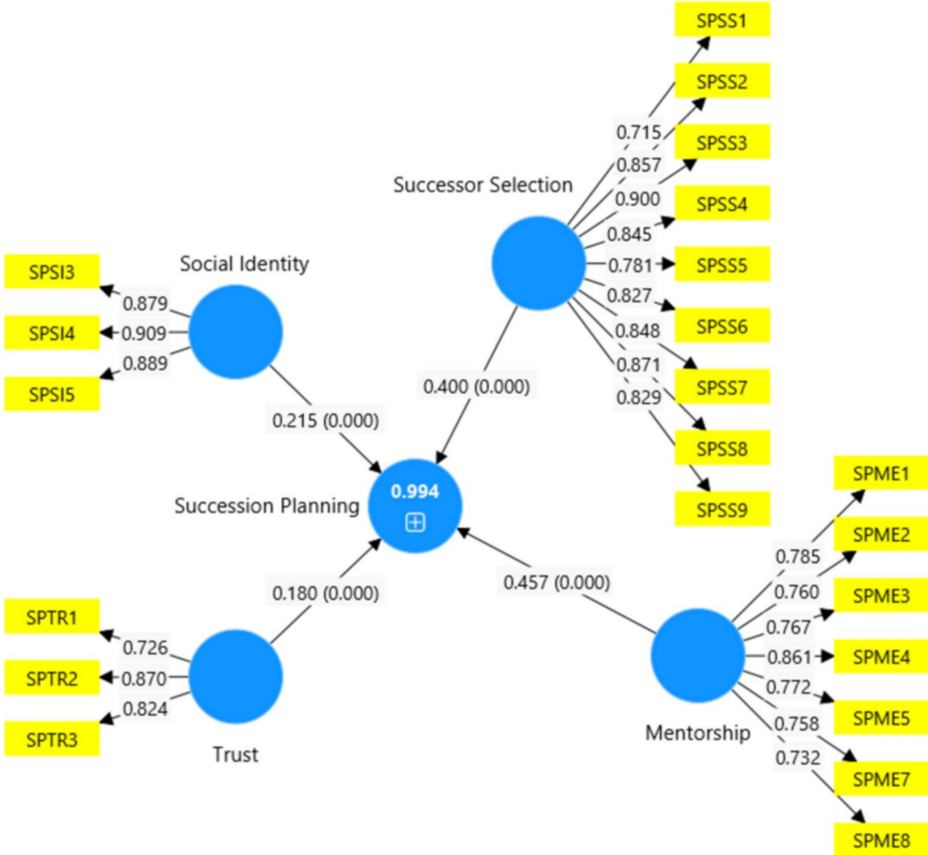

FIGURE 2: Meassurement model for sucession planning

SPS1, Succession planning-Social identity; SPTR, Succession planning-Trust; SPSS, Succession planning-Trust; SPSS, Succession planning-Successor selection

Source (s): Primary data

Figure 2 indicated that Mentorship emerged as the strongest contributor in explaining succession planning with seven items retained ($\beta = .471$, $p < .05$), followed by successor selection with nine retained items ($\beta = .393$, $p < .05$). Social identity is the third strongest contributor, with four items retained ($\beta = .204$, $p < .05$), while trust contributes the least, also with four items retained ($\beta = .190$, $p < .05$). These findings are further supported by the bootstrapped estimates presented in Table 5 below.

	β	Std. Error	T Statistics	P Values
Mentorship ―► Succession Planning	.471	.021	22.106	.000
Social Identity ―► Succession Planning	.204	.016	12.520	.000
Successor Selection ―► Succession Planning	.393	.025	15.905	.000
Trust ―► Succession Planning	.190	.015	12.858	.000

TABLE 5: Bootstrapped measurement model estimates for succession planning

Source(s): Primary source

The bootstrap results from Table 5 indicate that mentorship is the strongest predictor of succession planning, amounting to 47.1%, followed by successor selection at 39.3% and social identity at 20.4%. Trust is the least predictor, at only 19%.

Structural equation model: In examining the relationship between variables, Hair et al. (Hair et al., 2019) recommend the use of structural model analysis to unpack and explain the existing relationships. Additionally, Hair et al. (Hair et al., 2019) recommend that in assessing the structural model under Partial Least Squares Structural Equation Modeling, attention should be paid to factor loadings, coefficient of determination (R^2), effect size (F^2), and predictive power (Q^2). These are all significant in explaining the global variable. According to Hair et al. (Hair et al., 2017), the rule of thumb is that factor loadings need to be at a minimum of 0.08 and should be significant. For R^2 the rule of thumb is that the coefficient of determination should be at a minimum of 10% and above, while the effect size should be at least 0.02 for small and for 0.15 for medium, while substantive effect should be 0.35. The structural model generated from PLS is presented in Figure 3. The model captured meets the recommendation and rule of thumb since factor loadings for all items are at a minimum of 0.708. The coefficient of determination is 0.211, which is above the minimum threshold of 0.1.

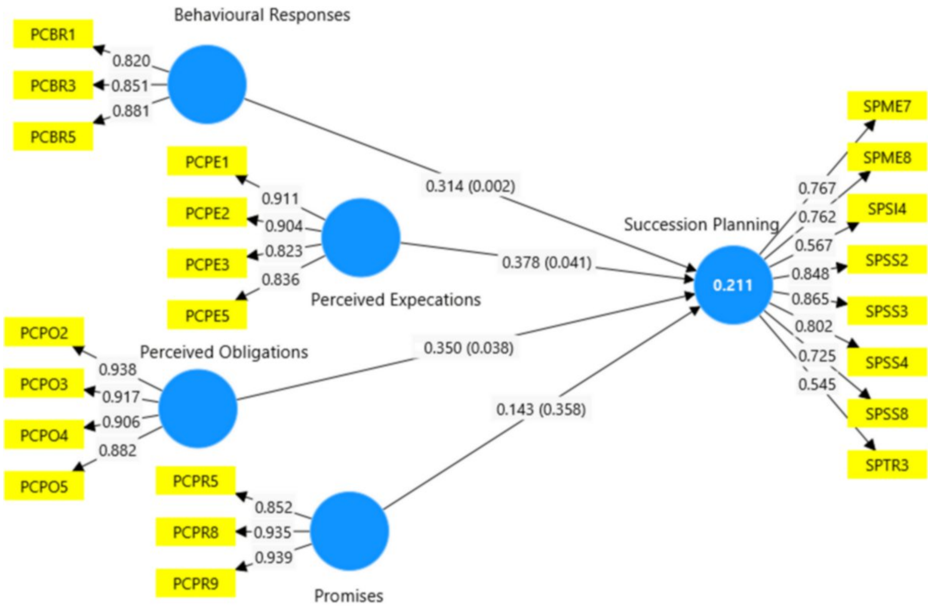

FIGURE 3: Structural model linking psychological contract to succession planning

PCBR, Psychological Contract-Behavioral responses; PCPE, Psychological contract-Perceived Expectation; PCPO, Psychological Contract-Perceived obligation; PCPR, Psychological contract-Promises

	β	Std. Error	t-Values	p-Values	95% Bias Corrected CI
Behavioral Responses ➞ Succession Planning	.314	.100	3.135	.041	[0.004-0.728]
Perceived Expectations ➞ Succession Planning	.378	.185	2.042	.002	[0.129-0.506]
Perceived Obligations ➞ Succession Planning	.350	.168	2.079	.038	[0.037-0.692]
Promises ➞ Succession Planning	.143	.155	0.920	.358	[-0.138-0.463]

TABLE 6: Structural model estimates linking psychological contract on succession planning

Source(s): Primary Data

In this study as illustrated in Table 6, we tested the hypotheses based on three parameters which include the probability value, the t-value, and the bias collected intervals at 95% as recommended by [63], who observed that a hypothesis is considered to be supported if the probability value is below 0.05, the t-values is at minimum of 1.96, and the BCI should not contain a zero between the lower and upper boundary. Based on the results shared in Table 7, three direct hypotheses were supported while one was not supported. There is a positive and significant relationship between behavioral responses and succession planning was supported since (β =.314, t-value = 3.135 and p-value < .05, BC1 = 0.004-0.728). There is also a positive and significant relationship between perceived expectations and succession planning was also supported since (β = .378, t-value = 2.079, and Sig < .05, BC1 = 0.129-0.506). The study also established a positive and significant relationship between perceived obligations and succession planning since (β = .350, t-value = 2.079, and Sig < .05, BC1 = 0.037-0.692). However, the study established no positive and significant relationship between promises and succession planning since (β = .143, t-value = 0.920, Sig > .05, BC1-0.138-0.463).

Code	Perceived Obligations	Loading
PCPO2	I know that I have to add value to our family business	0.938
PCPO3	I will still do the best possible job amidst any challenge facing our family business	0.917
PCPO4	It is my responsibility to have the necessary skills to do my job well	0.906
PCPO5	I continuously acquire knowledge to better manage our family business	0.882
	Perceived expectations	
PCPE1	I frequently make suggestions to improve the work of our family business	0.911
PCPE2	I care for the well-being of employees in our family business	0.904
PCPE3	My employees value the family contribution towards their wellbeing	0.823
PCPE5	I care about my general satisfaction working with the family business	0.836
	Promises	
PCPR5	I live up to my undertakings to this family business	0.852
PCPR8	I use both written and verbal undertakings in this family business	0.935
PCPR9	I have repeatedly met my promises to the business suppliers of this family business	0.939
	Behavioral responses	
PCBR1	I am willing to help my employees to perform better in this family business	0.820
PCBR3	I would recommend a close family member to join our family business	0.851
PCBR5	I wouldn’t exit or give up on this family business regardless of the challenges	0.881
	Succession planning	
SPMET	Management prepares potential successors from family members in this business	0.767
SPME8	Our family council prepares potential successors for leadership	0.762
SPS14	My family members do not have conflicting interests between family and business	0.567
SPSS2	Management assesses potential successor’s competence in business	0.848
SPSS3	Management assesses potential successor’s ability to follow firm’s rules and regulations	0.865
SPSS4	Management assesses potential successor’s commitment to business	0.802
SPSS8	Management considers the character of the potential successor	0.725
SPTR3	Our family members are cooperative with one another	0.545

TABLE 7: Retained items for structural model Psychological contract and succession planning

PCPE, Psychological contract perceived expectations; PCPO, Psychological contract perceived obligations; PCBR, Psychological contract behavioral responses; PCPR, Psychological contract promises; SPTR, Succession planning trust; SPSS, Succession planning successor selection ; SPSI, Succession planning social identity

Source (s): Primary Data

Discussion

The study was conducted using Goal Setting Theory (Locke and Latham, 2013) to establish the relationship between psychological contract and succession planning among small and medium family-owned businesses (Figure 4). The study established that three aspects of psychological contract, that is to say, behavioral responses, perceived obligations and perceived expectations, are positively and significantly related to succession planning in small and medium family-owned enterprises. However, due to the application of Goal Setting Theory in the Western context, when applied in the African context, the study established no relationship between promises and succession planning among small and medium family-owned businesses. This is largely attributed to informal norms and extended kinship which overshadows the effect of promises on succession planning. This largely differs from Western contexts, where nuclear family structures dominate with contractual and written commitments carrying more weight (Chua et al., 2003) (Molina, 2023). The discussion of the results is structured around the study hypotheses.

H_1: Supported-The study established that behavioral responses and succession planning are positively and significantly related. This means that family members who show strong behavioral commitment, such as supporting colleagues, help foster an environment that promotes knowledge transfer, mentorship, and business continuity. The willingness to support colleagues is indicative of a collaborative family business culture that can attenuate resistance to change and mitigate uncertainty during leadership succession. Additionally, the expression of pride in one's association with the family business often reflects a profound psychological identification with the family business, which can serve as a motivational driver for both successors and other stakeholders to uphold and advance the founder's vision and legacy. This concurs with Umans et al. (Umans et al., 2021), who assert that the engagement of all family members creates an environment where successors are more likely to transition successfully into leadership roles if they are engaged and show a positive attitude in supporting each other during the succession process. The positive attitude reflected in behavioral responses is a reflection that all family members are committed to supporting each other but more so willing to support whoever has been chosen as a successor to lead the rest in maintaining the family legacy (Mayanja et al., 2024) (Umans et al., 2021). Additionally, Goal Setting Theory (Locke and Latham, 2013) indicates that shared behavioral commitment reflects the establishment of a collectively endorsed goal, which leads to the preservation and continuation of the family enterprise supported by mutual encouragement and role alignment among family members.

H_2: Supported-Additionally, the study established a positive and significant relationship between perceived expectations and succession planning. This suggests that when successors perceive that their well-being is genuinely valued and that their contributions toward supporting others are recognized, they are more inclined to internalize the core values and strategic vision of the family business. Such internalization fosters a deeper psychological commitment to sustained involvement and leadership within the organization. Importantly, these perceptions contribute to the development of relational capital, which is a critical intangible asset that underpins trust-based interactions and facilitates intergenerational collaboration. Enhanced relational capital can, in turn, mitigate resistance to succession planning processes and promote proactive engagement in structured leadership development initiatives, thereby supporting continuity and long-term organizational resilience. This coincides with Nelson and Constantinidis (Nelson and Constantinidis, 2017) who assert that expectations play a role of motivation in the family business where family members base to gauge the amount of effort asserted or commitment in family business activities relative to their perceived expectations. If the amount exerted is higher than the perceived expectations, then their most likely to opt out of the family business and pursue their personal careers (Nelson and Constantinidis, 2017). Furthermore, Goal Setting Theory (Locke and Latham, 2013) supports the findings by emphasizing that perceived expectations function similarly to implicit goals, shaping the standards against which family members assess their performance and involvement in family business activities. When expectations are clearly defined and seen as achievable, they boost goal commitment to preserving the family enterprise, thereby encouraging succession planning and ongoing participation.

H_3: Supported-Perceived obligations were found to be positively and significantly associated with succession planning. This finding suggests that family members who conceptualize succession not merely as a personal opportunity but as a responsibility to the family enterprise are more likely to engage in proactive role preparation and leadership development, even in the absence of external validation. The internalization of such obligations reflects a commitment to the collective well-being of the organization, whereby actions are motivated by a sense of stewardship and long-term value creation rather than self-interest. Furthermore, when these perceptions, like forsaking personal interests are cultivated within a supportive and value-driven organizational culture, they are likely to enhance leadership readiness and reinforce the continuity of the family business legacy. In this context, perceived obligations like focusing on one's job regardless of the situation serve as a vital psychological mechanism that aligns individual aspirations with the broader goals of generational succession and business sustainability. This is in line with Rodriguez et al. (Rodriguez et al., 2022), who assert that obligations like adding value to the business and focusing on doing the job well admits tough times are crucial for successor engagement as potential successors are most likely to engage themselves in duties targeted for them to take over the family business when their business owner retires or dies. Moreover, Goal Setting Theory (Locke and Latham, 2013) reinforces this narrative by asserting that when obligations function as specific and performanceoriented goals, they provide direction and a sense of purpose for potential successors. When potential successors work towards well-defined objectives, they develop the competencies necessary for future leadership and strengthen their pledge to the overarching goal of transitioning the enterprise for generations.

H_4: Not supported-Lastly, the results show that there is no positive and significant relationship between promises and succession planning outcomes. This means that the business owner may fail to fulfill promises, such as making prompt payments, which can make some family members feel betrayed and cause them to lose trust. Subsequently, their expectations go down and they choose to pursue their personal goals or start to pursue a personal career rather than work for the family-owned business. Additionally, this finding may be indicative of the broader socio-cultural and institutional dynamics prevalent in many African contexts, the practice of making and honoring promises related to leadership succession may lack the structure and accountability necessary to translate verbal commitments into actionable plans (Kifordu, 2024). Additionally, in African family businesses, promises often carry limited weight due to the communal and extended nature of kinship systems (Kifordu, 2024). These systems contrast sharply with the more individualistic and nuclear family structures common in Western contexts. In Western settings, promises made between parents and biological children often carry binding, quasi-contractual importance, closely linked to personal legacy and property rights. Conversely, succession in African contexts is rooted in a framework of social legitimacy, collective expectations, and ongoing obligations to the extended family and the wider community (Mayanja et al., 2024). This broader familial scope adds complexity in the sense that verbal or informal promises may be seen as non-binding unless they receive public endorsement and align with cultural norms, such as elder approval, clan consensus, and adherence to gender and age hierarchies. This is aligned with Bozer et al. (Bozer et al., 2017), who assert that family business founders can find themselves in situations where they fail to fulfill the promises made to different family stakeholders due to cultural or contextual issues, leading to a breach of the psychological contract. In the African context, many communal and extended family members make it complex for the family business founder to balance and fulfill promises. The breach of promises greatly affects trust, leading to decreased attitudes and lower commitment, thus demotivating family members toward succession planning and business continuity (Bozer et al., 2017). According to Goal Setting Theory lens (Locke and Latham, 2013), the repeated breach of promises in family businesses underscores the strength of promises in family enterprises, thus denting obligations and commitment, which is essential for effective goal attainment. When succession planning verbal and non-verbal promises are not translated into concrete, measurable time time-bound plans, potential successors under mentorship perceive the goals as vague, which weakens their enthusiasm to work towards achieving long-term sustainability and continuity of the family enterprise.

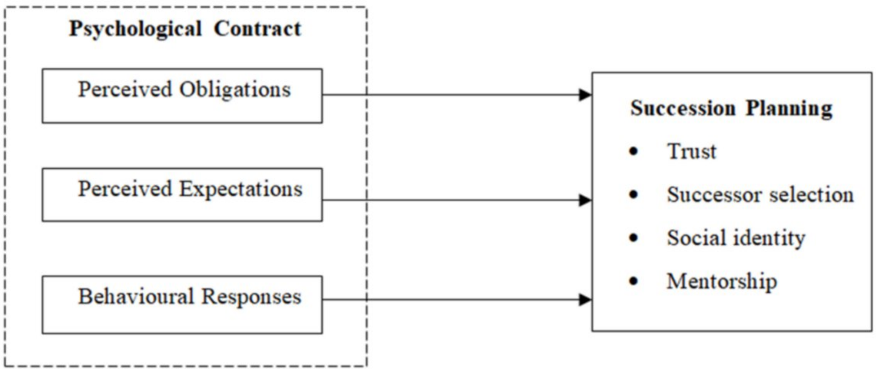

FIGURE 4: Final conceptual framework

The final conceptual framework illustrates the relationship between psychological contract and succession planning.

Conclusions

The study reveals that behavioral responses, perceived expectations, and perceived obligations are all positively and significantly associated with successful succession planning. Therefore, family members need to demonstrate and exhibit collaborative behaviors and emotional commitment to create a supportive culture that enhances knowledge transfer and continuity. Contrary to the above findings, the study found no significant relationship between promises and succession planning. This is communicative that when family business owners do not fulfil unwritten commitments trust is affected which demotivate potential successors in working toward continuing with the family legacy. Therefore, the study emphasizes how crucial it is to nurture an environment where trust drives unwritten commitments to facilitate succession planning in family-owned businesses.

Theoretical implications: In this study, Goal Setting Theory offers a valuable lens through which to interpret how psychological contract and succession planning work in small and medium-sized family-owned businesses. Goal Setting Theory posits that choice or direction, effort, persistence, and knowledge are the methods by which a specific, high objective results in high performance. Concerning the succession of family businesses in a developing country like Uganda, the theory suggests that when the family-owned business founder clearly defines specific, measurable succession objectives such as timelines for leadership transition, competency milestones for successors, and structured mentorship, it can improve the effectiveness of the succession planning process and thus leadership transfer. Due to the informal structures, collectivist family norms, and limited institutional support common in such contexts, goal setting offers a practical framework to validate the succession processes, foster accountability, and bridge generational gaps in management capacity. Consequently, it provides a theoretically grounded yet contextually adaptable approach to ensuring succession planning and continuity in family-owned enterprises.

Managerial implications: To strengthen succession planning, family business founders should actively institutionalize prosocial behaviors, such as mentorship and mutual support, by establishing formal mentorship programs. These programs should guide potential successors through regular, structured interactions with experienced family members. This can be supported by creating a family deed that outlines expected behaviors and values to be invested in organizational culture.

In addition, founders should transition from informal verbal commitments to formalized succession plans, which include written agreements detailing succession timelines, roles, and responsibilities of each family member involved. This can be operationalized through legal documentation, succession planning workshops, and regular family governance meetings to align expectations.

To ensure clarity and commitment from successors, businesses should implement structured leadership development programs, including job rotation, professional training, and performance evaluations. Furthermore, open and transparent communication protocols should be introduced, such as regular feedback sessions and decision-making forums, to foster shared understanding and accountability among all stakeholders involved in the succession process.

In patriarchal and extended family settings, family business leaders need to start early respectful dialogues with family elders and advisors to traverse emotional complexities so that trust is built through shared actions and decision making to reinforce credibility and ensure continuity. Additionally, family business owners need to create structures, allocate roles and formalize the succession plan when they are still alive and active in family business operations important for the family business to allow a smooth transition when they retire or die.

Policy implications: While Uganda’s National Development Plan IV (NDP IV) (2025-2030) prioritizes sectors such as agriculture, manufacturing, and tourism, it currently overlooks the significant role of family-owned businesses operating within these industries. To address this gap, the government should develop a dedicated policy framework that formally recognizes family-owned businesses as key contributors to economic growth and employment. This can be operationalized by integrating family enterprise development targets and indicators into sector-specific strategies under the NDP IV, alongside provisions for access to finance, training, and tax incentives tailored to the unique needs of family firms.

Furthermore, the government should establish a national registry of small and medium-sized family-owned businesses under the Uganda Registration Services Bureau or the Uganda Investment Authority. This register would provide a formal database to inform policymaking, resource allocation, and targeted support programs. Operationally, this can be implemented through collaboration with local governments and business associations, who can assist in identifying and verifying qualifying family-owned enterprises. Registration should be linked to incentives such as eligibility for government grants, subsidized training programs through the Uganda Industrial Research Institute, and inclusion in public-private partnership initiatives

Limitations and areas for future research: This study investigated the relationship between psychological contract and succession planning in family businesses in Uganda. Future research can examine other factors, like emotional intelligence, prosocial behaviors, mutual support, structured leadership development and communication protocols that affect succession planning in a developing country like Uganda. This study was cross-sectional, where data were collected at a single point in time. Future research can take a longitudinal study to allow the capturing of ideas and themes over a long period, since family businesses are said to be complex. Geographically, the study was conducted in the Kampala Central district covering the Trade, manufacturing, and service sectors. Therefore, the findings may differ if conducted in another context while covering more sectors.

Additional Information

Author Contributions

All authors have reviewed the final version to be published and agreed to be accountable for all aspects of the work.

Acquisition, analysis, or interpretation of data: Reuben David Kizito

Drafting of the manuscript: Reuben David Kizito

Concept and design: Rogers Matama, Vicent Bagire, Isaac Nkote Nabeta, Lawrence Kyazze

Critical review of the manuscript for important intellectual content: Rogers Matama, Vicent Bagire, Isaac Nkote Nabeta, Lawrence Kyazze

Supervision: Rogers Matama, Vicent Bagire, Isaac Nkote Nabeta, Lawrence Kyazze

Disclosures

Human subjects: Consent was obtained or waived by all participants in this study. Makerere University issued approval Reg No 2019/HD/10/3793U. This is part of the PhD thesis entitled ''Succession planning in family businesses in Uganda'' which was approved by Makerere University under Reg No 2019/HD/10/3793U. **Animal subjects:** All authors have confirmed that this study did not involve animal subjects or tissue. **Conflicts of interest:** In compliance with the ICMJE uniform disclosure form, all authors declare the following: **Payment/services info:** All authors have declared that no financial support was received from any organization for the submitted work. **Financial relationships:** All authors have declared that they have no financial relationships at present or within the previous three years with any organizations that might have an interest in the submitted work. **Other relationships:** All authors have declared that there are no other relationships or activities that could appear to have influenced the submitted work.

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The secondary data of this study were collected from different referenced journals. Data availability statement: The datasets for this research will be available upon request. Kindly contact: reubendavid.kizito@gmail.com

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