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Financial Literacy as a Governance-Enabling Capability in Family Business Succession: Evidence from the UAE

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Abstract

This study examines whether financial literacy is associated with formal succession planning, ease of succession, and expected post-succession business performance in UAE family businesses. Survey data from 188 owners, successors, and senior managers are analysed using a principal-component-based financial literacy index. Ordered logistic regression is used to examine formal planning, while ordinary least squares regression is used to assess transition ease and expected performance. Financial literacy is positively associated with formal succession planning and expected post-succession performance. Its direct association with ease of succession is not statistically significant when formal planning and successor preparedness are included. Successor preparedness is positively associated with both formal planning and transition ease, while engagement with external advisers is positively associated with formal planning. The study frames financial literacy as a capability that enables governance and develops a Capability-Based Succession Pathway distinguishing governance preparation, leadership transition, and expected post-succession outcomes. The findings suggest that financial literacy is especially relevant to formalising succession arrangements, whereas transition ease depends more directly on planning and successor preparedness. Practically, integrating financial literacy development into succession preparation may support continuity and wealth preservation. Because the data are cross-sectional and self-reported, causal inference is limited. Future research should use longitudinal, multi-respondent designs and accounting-based performance indicators.

JEL codes: G53; M10; M13; G32; L26

1. Introduction

Intergenerational succession in family-owned businesses is more than an inheritance transaction. It involves handing over leadership, relationships, decision rights and organisational knowledge while keeping family business continuity through the process (De Massis, et al., 2008; Mansouri & Moufdi, 2026). The literature illustrates the difficulty of managing succession effectively, as most family firms do not survive beyond the third generation (Ward, 1987; Ahmad & Yaseen, 2018).

The succession literature has evolved from viewing succession as a single handover event. It now treats it as a process shaped by preparation, governance, family relationships, knowledge transfer and strategic renewal (De Massis, et al., 2008; Gjergji, et al., 2025; Handler, 1994; Le Breton–Miller, et al., 2004; Reif, et al., 2025). This shift has brought more attention to how family firms prepare successors, formalise succession planning, and maintain organisational continuity (Gabriel & Bitsch, 2019; Jasir, et al., 2023). However, less attention has been given to the financial capabilities that help family firms convert succession intentions into formal governance arrangements. This gap is important because succession involves a set of financial decisions related to business valuation, ownership restructuring, financing, taxation, wealth transfer and the allocation of family and business assets (Jansen, et al., 2023; Molly, et al., 2010; Wang, et al., 2025). On this view, financial literacy is not just a household finance concept. In a family-business context, financially capable owners, successors, and senior managers may be better able to weigh succession options, work with advisers, and put governance arrangements on paper.

This paper views financial literacy as a governance-enabling organisational capability and develops a Capability-Based Succession Pathway (CBSP), which is tested across three stages: i) whether financial literacy is associated with formal succession planning; ii) whether financial literacy eases the succession transition once successor preparedness and formal planning are accounted for; and iii) whether financial literacy is associated with expected post-succession business performance.

The framework draws on three theoretical perspectives. The Resource-Based View (RBV) explains how financial knowledge becomes an organisational capability when embedded in decision-making rather than held individually (Barney, 1991; Wernerfelt, 1984). The Knowledge-Based View (KBV) adds that what matters is not only processing this knowledge but also developing and applying it during leadership transition (Grant, 1996). The Socioemotional Wealth (SEW) perspective explains why succession decisions reflect family-control and continuity objectives alongside financial considerations (Gómez-Mejía, et al., 2007).

The UAE provides a relevant setting for empirically testing this framework. Family businesses account for a substantial share of private-sector activity, and a considerable number of them are approaching first-to-second- or second-to-third-generation transitions (Basco, et al., 2020; PwC Middle East, 2023). Federal Decree-Law No. 37 of 2022 has also raised institutional attention to family-business governance and continuity in the UAE (Ministry of Economy & Tourism, 2022). These developments sharpen the underlying question of whether family firms have the internal capabilities to implement formal succession arrangements that this institutional attention now expects.

Using survey data from 188 UAE family businesses, we find that financial literacy is positively associated with formal succession planning and with expected post-succession business performance. However, its direct association with ease of succession is not statistically supported once we include formal planning and successor preparedness. Successor preparedness is positively associated with both formal planning and ease of transition. External adviser engagement is positively associated with formal planning.

The study contributes to family-business research in three ways. First, it shows how financial literacy specifically supports the formalisation of succession governance. Second, it advances capability-based explanations of family-business continuity by distinguishing governance preparation, leadership handover and post-succession outcomes. Third, it provides evidence from the UAE/GCC context, where family firms dominate the economy but remain underrepresented in succession research.

The remainder of the paper is organised as follows. Section 2 sets out the theoretical framework and hypotheses. Section 3 outlines the methodology. Section 4 presents the empirical results. Section 5 discusses the findings. Section 6 concludes.

2. Literature Review and Theoretical Development

2.1. Family-business succession in the GCC

Early family-business studies viewed succession mainly as the transfer of managerial control from one generation to the next (Barnes & Hershon, 1976; Beckhard & Dyer Jr, 1983). Later research moved toward a process view, in which succession involves incumbent preparation, successor development, governance arrangements and shifting family and organisational relationships (Handler, 1994; Sharma, et al., 2003a; Sharma, et al., 2003b). From this view, families must establish the conditions through which authority can be transferred, accepted, and sustained (Lam, 2011; Reif, et al., 2025). Evidence suggests that planning, preparation and successor development are central to this process (Le Breton–Miller, et al., 2004), and that family, organisational and environmental conditions shape outcomes (De Massis, et al., 2008).

More recent studies link succession to professionalisation, governance and knowledge transfer (Baltazar, et al., 2023; Baltazar, et al., 2025; Klugah, et al., 2025), and view these as factors that operate differently at different stages of the succession process. In this paper, we follow this view by treating formal succession planning as governance preparation, ease of succession as leadership transition, and post-succession business performance as an organisational outcome.

The GCC offers a relevant setting to test this framework for several reasons. First, the region has received less attention in the literature relative to North American and European family firms (Reif, et al., 2025). Second, succession in the GCC is shaped by concentrated family ownership, strong family involvement in management, socio-cultural expectations around authority, inheritance and continuity, and evolving institutional conditions and expectations (Al Qawasmeh, 2022; Basco, et al., 2020; Samara, 2021). Third, a consistent finding across the regional evidence is that GCC family firms recognise succession but do little to prepare for it formally. Oudah et al. (2018) identify weaknesses in strategic planning, governance and succession preparation among UAE family firms. PwC Middle East (2023) similarly reports that many family businesses know succession is critical but lack formal plans. Lombard Odier (2025) shows this gap persists even where predecessor and next-generation family members are confident about future leadership. This may suggest that the issue in the GCC is not awareness, but rather implementation.

Two factors may help close this gap. The first is related to governance professionalisation. Formal governance mechanisms, such as family constitutions, succession protocols and advisory structures, can clarify authority, reduce conflict and structure how ownership and management responsibility actually change hands. The second is successor preparation through education, mentoring, managerial experience and gradually greater responsibility, all of which can strengthen successor competence and legitimacy (Al Qawasmeh, 2022; Samara, 2021). These mechanisms are especially important where incumbents are reluctant to step back or where several family members could lead.

Succession in the GCC is also complicated by the fact that family firms often seek to preserve ownership and control at the same time as meeting financial and strategic objectives (Gómez-Mejía, et al., 2007; Jansen, et al., 2023). Therefore, financing, ownership and succession decisions may reflect socioemotional considerations as much as economic goals.

Overall, the literature suggests that succession difficulties in the GCC stem from limited implementation capacity rather than limited awareness. This study addresses whether financial literacy is one source of

that implementation capacity. It examines whether financial literacy helps family firms formalise succession arrangements and manage the financial aspects of intergenerational handover.

2.2. Financial literacy as a governance capability

Succession is a governance event, not simply a leadership change. It requires the family firm to reallocate ownership, control and decision rights across generations in a way that is financially viable, organisationally credible and acceptable to family members (Miller & Le Breton–Miller, 2006). This differs from the individual-level financial-literacy construct commonly examined in personal finance research, which focuses on saving, borrowing, investment and retirement planning (Lusardi & Mitchell, 2014). In family firms, financial literacy sits at the intersection of ownership, family relationships and firm strategy. It is tested most directly when succession requires decisions about business valuation, ownership restructuring, taxation and financing arrangements (Molly, et al., 2010). Where this competence is weak among principal decision-makers, families may rely on informal understandings rather than enforceable governance rules. This reflects the implementation gap identified in the GCC succession literature.

The mechanism is clearest in the financial choices that succession creates. When ownership must be transferred among family members with unequal roles in the business, financial literacy helps decision-makers evaluate valuation methods, financing structures and ownership-transfer options. This reduces reliance on sentiment, birth order or informal bargaining. Koropp et al. (2013) show that financial knowledge, attitudes and planning success influence owner-managers' debt-usage intentions when financing succession. Financial literacy also enables families to work more effectively with external advisers. Lawyers, accountants and valuers can provide technical input, but financially capable family decision-makers are better positioned to turn that advice into practical governance provisions such as buy-sell agreements, shareholder agreements and family constitutions. From the Resource-Based View, this turns financial literacy from individual knowledge into an organisational capability that is valuable because it supports a strategic process and is difficult for other firms to replicate in the same family-specific form (Barney, 1991; Wernerfelt, 1984).

This capability may also evolve across the family-business life cycle. Using Spanish family-firm data, Molina-García et al. (2020) find that higher family ownership concentration is associated with lower financial literacy, while financial literacy improves across generations. This suggests that financial literacy may develop as family firms professionalise, although the relationship likely depends on ownership structure, governance routines, and advisory engagement. Founder-centred firms that rely heavily on informal decision-making may enter succession with weaker financial systems and less prepared successors. Later-generation firms may have stronger reporting routines, advisory relationships and governance structures that give successors a firmer basis for transition. In this view, financial literacy is a governance capability that helps turn succession from an informal family intention into an implementable business process, which this paper tests.

2.3. Financial literacy and formal succession planning

Formal succession planning replaces informal subjective judgement with documented governance structures. It sets out how leadership, management and ownership will transfer, identifies successor candidates, clarifies responsibilities, and specifies ownership-transfer provisions and decision-making procedures during transition (Le Breton–Miller, et al., 2004; Sharma, et al., 2003a). Financially capable decision-makers may be better able to assess the implications of alternative succession routes, including ownership transfer, financing choices and the allocation of assets and control. This makes financial literacy relevant not just as individual knowledge but as a capability that supports formalisation.

This argument is consistent with the professionalisation literature. Formal systems reduce reliance on informal, founder-centred decision-making and put clearer governance procedures in their place (Brumana, et al., 2015; Gimenez-Jimenez, et al., 2025; Woodfield & Husted, 2017). Financial capability may strengthen this shift by helping family members analyse financial information, engage with advisers and design succession arrangements that the rest of the family can trust. Thus:

Hypothesis 1

(H1). Financial literacy is positively associated with the likelihood that family firms adopt formal succession planning.

Successor competence, managerial experience and readiness to take responsibility shape whether a leadership handover is feasible and credible to family members (Le Breton–Miller, et al., 2004; Venter, et al., 2005). Coaching, mentoring, education and hands-on managerial experience can build the successor's confidence and reduce uncertainty around transferring leadership (Bozer, et al., 2017; Klugah, et al., 2025; Lansberg & Astrachan, 1994). When the family views a successor as competent and legitimate, it becomes more willing to document responsibilities, establish a transition timetable, and specify decision rights in writing. Thus:

Hypothesis 2

(H2). Successor preparedness is positively associated with the likelihood that family firms adopt formal succession planning.

2.4. Financial literacy and ease of succession

Formal planning does not by itself guarantee a smooth handover. Succession also depends on whether the successor can take on responsibility and whether the family can implement what it has agreed. Handler (1994) identifies the effective transfer of roles and authority as the crux of succession, while Le Breton-Miller et al. (2004) emphasise preparation, communication and relationship management as what make the transfer work in practice.

Financial literacy may help families deal with various issues during the transfer of control. However, its strongest role probably occurs earlier in the process, when ownership, financing and governance arrangements are still being formalised. Once transition begins, successor competence and the quality of

formal planning become more directly relevant. The Knowledge-Based View supports this distinction. For organisational outcomes, it matters not only to possess knowledge but also to transfer and apply it effectively (Grant, 1996). Financial knowledge supports preparation, but leadership transition also needs a capable successor and an agreed institutional structure to lean on. Thus:

Hypothesis 3

(H3). Financial literacy is positively associated with the ease of intergenerational succession.

Hypothesis 4

(H4). Successor preparedness is positively associated with the ease of intergenerational succession.

Hypothesis 5

(H5). Formal succession planning is positively associated with the ease of intergenerational succession.

2.5. Financial literacy and post-succession business performance

Succession outcomes do not end with the leadership handover. Family firms must remain competitive, financially stable, and organisationally coherent once control passes to the next generation. Prior research links post-succession outcomes to successor capability, professionalisation, governance and strategic planning (Alayo, et al., 2016; Morris, et al., 1996). Financial literacy should support performance at this stage by improving investment appraisal, liquidity management, financing decisions, risk assessment, and financial data analysis. These capabilities are important during generational transition because the incoming generation must balance continuity with possible changes in strategy and structure.

The Socioemotional Wealth (SEW) perspective adds another layer. Family firms are not purely profit-seeking organisations but are also trying to preserve family ownership, influence and continuity (Gómez-Mejía, et al., 2007). Financial capability may help decision-makers assess strategic choices while protecting family objectives. Financial literacy is therefore expected to be positively associated with expected post-succession business performance. Thus:

Hypothesis 6

(H6). Financial literacy is positively associated with post-succession business performance.

2.6. The Capability-Based Succession Pathway (CBSP)

These hypotheses form a Capability-Based Succession Pathway (CBSP) that structures family-business succession in three stages: governance preparation, leadership transition and post-succession outcomes.

At the governance-preparation stage, financial literacy and successor preparedness both support succession formalisation but through different routes. Financial literacy helps decision-makers weigh the ownership, financing, taxation and other financial consequences of succession. Successor preparedness reduces uncertainty about who will eventually take over.

At the leadership transition stage, formal planning supplies the structure through which authority is transferred, while successor preparedness provides the human capital needed to implement that structure. Financial literacy may ease the transition indirectly through these two factors.

At the post-succession stage, financial literacy remains relevant because successors must make decisions about investment, financing, liquidity, and risk that affect business performance. However, after succession, performance also reflects a broader set of organisational and market conditions that this paper does not consider.

The CBSP combines RBV, KBV and SEW. RBV frames financial literacy as a governance capability, KBV emphasises developing and applying knowledge during succession, and SEW recognises the importance of family ownership, influence, and continuity in succession decisions (Wernerfelt, 1984; Barney, 1991; Grant, 1996; Gómez-Mejía, et al., 2007).

The empirical analysis follows these stages in sequence, but it does not assume a causal mediation chain running from one to the next. Rather, it examines whether the association between financial literacy and succession differs across governance preparation, leadership transition and post-succession outcomes. This distinction is important given the cross-sectional nature of our data.

3. Research Design, Approach and Method

3.1. Research design and sample

The empirical analysis uses survey data from UAE family businesses to test the proposed hypotheses. The models examine formal succession planning, ease of succession and expected post-succession business performance as the three outcomes of interest.

A survey design is appropriate because succession planning, successor preparedness and family-control orientation are not generally observable from archival data. Family-business succession research commonly relies on informed responses from owners, successors and senior managers (De Massis, et al., 2008; Sharma, et al., 2003b).

A family business is defined as an enterprise characterised by concentrated family ownership, family involvement in management and an intention to transfer ownership or leadership across generations (Chrisman et al., 2012; Sharma et al., 2003a). Firms were screened using four criteria: private family-controlled ownership, at least one year of operation, respondent involvement in governance or succession decisions, and evidence that the firm was considering, planning or implementing intergenerational transition.

Data were collected in the UAE during March and April 2026. The UAE is a relevant setting because family ownership remains important in the private sector, and many firms face increasing pressure to strengthen governance as they approach generational transition (Basco et al., 2020; PwC Middle East, 2023).

We administered questionnaires in person and online. Respondents were informed that participation was anonymous and confidential. The survey did not request identifying information about respondents or participating firms. Institutional approval was obtained.

We distributed 420 questionnaires and received 203 responses, for a response rate of 48.3%. We excluded 15 responses because of missing or inconsistent information. The final sample comprises 188 family-business observations. The number of observations varies slightly across regression models because of item-level missing values.

To reduce common method concerns, the questionnaire separated predictor and outcome items, used neutral wording, and assured respondents that participation was anonymous and confidential. Respondents were also informed that there were no right or wrong answers. Statistically, we examined multicollinearity diagnostics across the regression models. The maximum variance inflation factor remains below 2.5, suggesting that common-source inflation from excessive collinearity is not severe. Nevertheless, because the study uses cross-sectional single-informant survey data, common method bias cannot be fully ruled out.

3.2. Measurement of primary variables

Table 1 sets out the empirical variables, coding, and sources.

Financial literacy is measured using eight self-assessed items covering financial-statement interpretation, budgeting, investment appraisal, financing options, taxation and compliance, risk management and capital allocation. The Financial Literacy Index (FLI) is the first principal component of these items. As a robustness check, we also use the arithmetic mean of the same items.

We assessed the eight financial-literacy items before constructing the Financial Literacy Index (FLI). The Kaiser-Meyer-Olkin value is 0.902, and Bartlett's test of sphericity is statistically significant at the 1% level, indicating that the items are suitable for principal component analysis (Hair, et al., 2019; Tabachnick & Fidell, 2019). The first component has an eigenvalue of 4.47 and explains 55.88% of the total variance. All eight items load positively, and item-total correlations range from 0.56 to 0.72. Cronbach's alpha is 0.886, indicating strong internal consistency. The first component is therefore our primary Financial Literacy Index (FLI).

Formal succession planning (FSP) measures the extent to which the firm has documented succession protocols and prepared formally for the transfer of ownership or leadership. Because the measure is based on a five-point ordinal scale, it is analysed using ordered logistic regression.

Ease of succession (EOS) captures the perceived smoothness and continuity of the intergenerational transition, including the extent to which conflict is limited. It is constructed from five-point Likert-scale

items and treated as a continuous dependent variable in the OLS models.

Post-succession business performance (BP) captures respondents' expectations regarding competitiveness, profitability and long-term viability after succession. The measure is perceptual and based on expectations. It should not be interpreted as realised accounting or market performance.

Successor preparedness (SP) captures the successor's perceived managerial experience, leadership competence and strategic capability. Family control orientation (FCO) measures the importance placed on preserving family ownership, influence and continuity. External adviser engagement (ADVISER) is a binary variable equal to one where the firm has engaged professional external advisers for succession-related matters and zero otherwise.

Educational attainment (EDUCATION) is measured as the number of years of study required to attain the highest qualification reported by the respondent. **Business age (AGE)** is measured as the number of years since establishment. **Industry dummy variables** control for sector-specific differences.

Table 1
Definition and measurement of variables

Variable	Description	Type	Expected sign	Source
Formal Succession Planning (FSP)	Extent of structured, documented succession protocols and formal preparation of successors. Measured on a 5-point Likert scale (1 = Strongly Disagree to 5 = Strongly Agree).	Ordinal	Not applicable	De Massis et al. (2008)
Ease of Succession (EOS)	Perceived operational smoothness, continuity, and conflict minimisation during transition. Composite index of 5-point Likert items.	Composite/continuous	Not applicable	Le Breton-Miller et al. (2004)
Business Performance (BP)	Respondents' expectations regarding the firm's competitiveness, profitability and long-term viability following intergenerational succession. Composite of five-point Likert-scale items.	Composite/continuous	Not applicable	Morris et al. (1996)
Financial Literacy Index (FLI)	Composite measure of financial capability (statement analysis, budgeting, capital budgeting, risk, tax)—first principal component derived from 8 Likert items.	Continuous	+	Lusardi & Mitchell (2014); OECD (2020); authors' construction
Alternative Financial Literacy (FL_mean)	Unweighted arithmetic mean score across the 8 core financial literacy items. Used for robustness checks.	Continuous	+	Authors' construction
Successor Preparedness (SP)	Perceived managerial experience, leadership competence, and strategic capability of the successor.	Composite/continuous	+	Cabrera-Suárez et al. (2001); Groves (2007)

Note: The expected sign for Business Age (AGE) is treated as non-directional (±). While mature firms may possess institutionalised routines (Fahed-Sreih & Djoundourian, 2006), ageing firms may also experience founder-entrenched inertia.

Variable	Description	Type	Expected sign	Source
	Composite index of 5-point Likert items.			
Education (EDU)	Years of education to reach the highest educational qualification	Continuous	+	Ahmad & Yaseen (2018)
Business Age (AGE)	Operational age of the enterprise in years since establishment.	Continuous	+/−	Fahed-Sreih and Djoundourian (2006)
Family Control Orientation (FCO)	Perceived importance of preserving family ownership, influence, continuity and socioemotional value. Composite of five-point Likert-scale items.	Composite/continuous	+/−	Gómez-Mejía et al. (2007)
External Adviser (ADVISER)	Binary variable equal to one where the firm engages an external professional adviser in succession-related matters, and zero otherwise.	Binary	+	Cisneros et al. (2022); Wojtyra-Perlejewska and Koładkiewicz (2024)
Industry Dummies	Vector of categorical dummy variables controlling for sector-specific fixed effects.	Categorical	Not applicable	Authors

Note: The expected sign for Business Age (AGE) is treated as non-directional (±). While mature firms may possess institutionalised routines (Fahed-Sreih & Djoundourian, 2006), ageing firms may also experience founder-entrenched inertia.

3.3. Regression models and estimation strategy

We estimate three models, one for each stage of the CBSP, with regression results reflecting statistical associations, rather than causal effects.

Because formal succession planning (FSP) is ordinal, we estimate Stage 1 using ordered logistic regression. It estimates the probability that a firm falls within a higher category of formal succession planning without assuming equal distances between adjacent categories:

$FSP_i = b_0 + b_1\ FLI_i + b_2\ SP_i + b_3\ ADVISER_i + b_4\ EDU_i + b_5\ AGE_i + b_6\ FCO_i + \sum b_j\ Industry_{ij} + \varepsilon_i$ (Eq. 1)

Eq. 1 tests Hypothesis 1 ($b_1 > 0$) and Hypothesis 2 ($b_2 > 0$).

Stage 2 treats Ease of succession (EOS) as a continuous composite measure and is estimated using OLS:

$EOS_i = b_0 + b_1\ FLI_i + b_2\ SP_i + b_3\ FSP_i + b_4\ ADVISER_i + b_5\ EDU_i + b_6\ AGE_i + b_7\ FCO_i + \sum b_j\ Industry_{ij} + \varepsilon_i$ (Eq. 2)

Eq. 2 tests Hypothesis 3 ($b_1 > 0$), Hypothesis 4 ($b_2 > 0$), and Hypothesis 5 ($b_3 > 0$).

Stage 3 estimates post-succession business performance (BP), also using OLS:

$BP_i = b_0 + b_1\ FLI_i + b_2\ SP_i + b_3\ FSP_i + b_4\ ADVISER_i + b_5\ EDU_i + b_6\ AGE_i + b_7\ FCO_i + \sum b_j\ Industry_{ij} + \varepsilon_i$ (Eq. 3)

Eq. 3 tests Hypothesis 6 ($b_1 > 0$).

4. Empirical Results

4.1. Sample profile and descriptive statistics

Table 2 reports the descriptive statistics. The sample comprises 188 UAE family businesses operating across several industries. Respondents include founders, owners, chief executives, directors, senior managers and next-generation family members involved in governance or succession decisions.

Formal succession planning (FSP) has a mean of 2.94, indicating moderate formalisation with substantial variations across firms. Ease of succession (EOS) has a mean of 3.18, and the expected post-succession business performance (BP) has a mean of 3.42.

The PCA-based Financial Literacy Index (FLI) has a mean of zero, while successor preparedness has a mean of 3.56. Family control orientation has a mean of 4.12.

Table 2
Descriptive statistics

Variable	N	Mean	SD	Min.	Max.
Formal succession planning (FSP)	188	2.94	1.21	1	5
Ease of succession (EOS)	188	3.18	0.94	1	5
Post-succession business performance (BP)	188	3.42	0.88	1	5
Financial Literacy Index (FLI)	188	0.00	1.00	−2.41	2.18
Successor preparedness (SP)	188	3.56	0.91	1	5
Educational attainment (years in school)	188	16.40	2.80	12	22
Business age (years)	188	24.60	12.30	5	58
Family control orientation (FCO)	188	4.12	0.76	1	5
External adviser (1 = yes)	188	0.54	0.50	0	1

4.2. Correlation analysis

Table 3 reports the pairwise correlations. Financial literacy is positively correlated with formal succession planning, ease of succession and post-succession business performance. Successor preparedness is also positively correlated in the same way. Formal succession planning is strongly correlated with ease of succession. This is consistent with the staged structure proposed by the CBSP. Successor preparedness is also highly correlated with financial literacy and formal succession planning. However, the maximum reported VIF remains below 2.5 across the regression models, suggesting that multicollinearity is not serious.

Table 3
Correlation matrix

Variable	FSP	EOS	BP	FLI	SP	Adviser	EDU	AGE	FCO
FSP	1.000								
EOS	.758***	1.000							
BP	.532***	.560***	1.000						
FLI	.780***	.667***	.586***	1.000					
SP	.787***	.675***	.513***	.697***	1.000				
Adviser	.492***	.385***	.256***	.392***	.466***	1.000			
EDU	.276***	.256***	.315***	.314***	.303***	.281***	1.000		
AGE	.062	.049	−.075	−.044	.125	−.039	.255***	1.000	
FCO	.298***	.261***	.409***	.410***	.313***	.075	.140	−.009	1.000

Note: FSP = formal succession planning; EOS = ease of succession; BP = expected post-succession business performance; FLI = Financial Literacy Index; SP = successor preparedness; EDU = educational attainment; AGE = business age; FCO = family control orientation. *** p < .01; ** p < .05; * p < .10.

4.3. Regression analysis

Stage 1: Governance preparation — determinants of formal succession planning

Table 4 presents the ordered logistic regression results for formal succession planning. The model is statistically significant.

Financial literacy is positively and significantly associated with formal succession planning, supporting H1. Because the FLI is standardised, the estimated odds ratio indicates that a one-standard-deviation increase in financial literacy is associated with higher odds of being in a more formal succession-planning arrangement.

Successor preparedness is also positive and statistically significant, supporting H2. This suggests that firms with more prepared successors are more likely to report formal arrangements.

External adviser engagement is positive and significant too, consistent with the argument that external expertise supports the technical and governance aspects of succession planning (Bertschi-Michel, et al., 2021; Wojtyra-Perlejewska & Koładkiewicz, 2024). Other variables are not significant.

Table 4
Ordered logistic regression: determinants of formal succession planning

Variable	Coefficient	Std. Error	p-value
Financial Literacy Index	0.963***	0.182	0.001
Successor preparedness	0.714***	0.198	0.001
External adviser	0.883**	0.408	0.029
Educational attainment	−0.215	0.169	0.207
Business age	0.004	0.017	0.837
Family control orientation	0.003	0.142	0.982
Consumer and retail	−0.835	0.513	0.104
Hospitality and tourism	−0.352	0.542	0.519
Real estate	0.393	0.601	0.516
Observations	182		
LR $\chi^2(9)$	154.34***		
Log likelihood	−158.93		
Pseudo-R^2	0.3269		

Note: *** p < .01; ** p < .05; * p < .10. Coefficients are ordered-logit estimates. Industry coefficients are interpreted relative to the omitted reference industry.

Stage 2: Leadership transition — determinants of ease of succession

Table 5 reports the OLS estimates for ease of succession. The model is statistically significant.

Formal succession planning is positively associated with ease of succession, supporting H5. Successor preparedness is also positively associated with ease of succession, supporting H4. These results suggest that transition ease is more directly linked to formal governance arrangements and successor capability.

Financial literacy is not statistically significant here, so H3 is not supported. Although financial literacy strongly correlates with ease of succession, this association becomes insignificant once formal planning and successor preparedness are included. This is consistent with financial literacy affecting succession more through governance preparation than through transition ease itself. Other variables are not significant.

Table 5
OLS regression: determinants of ease of succession

Variable	Coefficient	Std. Error	p-value
Constant	1.409**	0.714	0.048
Financial Literacy Index	0.099	0.065	0.129
Successor preparedness	0.202**	0.090	0.026
Formal succession planning	0.505***	0.078	0.001
External adviser	−0.083	0.203	0.682
Educational attainment	0.072	0.080	0.371
Business age	−0.004	0.009	0.601
Family control orientation	−0.011	0.068	0.866
Consumer and retail	−0.240	0.226	0.289
Hospitality and tourism	0.059	0.237	0.806
Real estate	−0.345	0.258	0.186
Observations	**181**		
F(10,170)	**27.71*** **		
R^2 / **Adjusted** R^2	**0.62 / 0.60**		
Root MSE	1.014		
Maximum VIF	2.217		
Note: *** p < .01; ** p < .05; * p < .10. OLS estimates are reported.			

Stage 3: Post-succession outcome — determinants of expected future performance

Table 6 reports the OLS estimates for post-succession business performance. The model is statistically significant.

Financial literacy is positively associated with post-succession performance, supporting H6. This indicates that financially capable decision-makers report more positive expectations regarding competitiveness, profitability and long-term viability following succession. Because the dependent variable is perceptual and forward-looking, the result should not be interpreted as evidence of realised financial performance.

Formal succession planning is positively associated with post-succession performance, while successor preparedness is insignificant. Educational attainment and family control orientation are positively associated with expected performance. Business age is negatively associated with post-succession

performance, which contrasts with the findings of Fahed-Sreih and Djoundourian (2006). Our result may reflect governance complexity, organisational inertia, respondent expectations or another unobserved factor.

The industry variables are not significant.

Table 6
OLS regression: determinants of post-succession business performance

Variable	Coefficient	Std. Error	p-value
Constant	2.710***	0.712	0.001
Financial Literacy Index	0.128**	0.064	0.048
Successor preparedness	0.105	0.089	0.242
Formal succession planning	0.169*	0.098	0.087
External adviser	−0.132	0.201	0.517
Educational attainment	0.243***	0.080	0.003
Business age	−0.019**	0.008	0.019
Family control orientation	0.200***	0.067	0.003
Consumer and retail	−0.090	0.226	0.691
Hospitality and tourism	−0.040	0.237	0.867
Real estate	−0.110	0.261	0.672
Observations	182		
F(10,171)	13.71***		
R^2 / Adjusted R^2	0.44 / 0.41		
Root MSE	1.015		
Maximum VIF	2.170		
Note: *** p < .01; ** p < .05; * p < .10. OLS estimates are reported.			

4.4. Robustness analysis

Table 7 reports the robustness analysis using the arithmetic mean of the eight financial-literacy items instead of the PCA-derived index. The main results are consistent with the findings above. Financial literacy remains significantly associated with formal succession planning and expected post-succession performance. It remains insignificant for ease of succession.

Table 7
Robustness analysis using an alternative financial-literacy measure

Variable / Statistic	Formal succession planning (ordered logit model)	Ease of succession (OLS)	Post-succession performance (OLS)
Alternative financial literacy	1.863 (0.001)***	0.204 (0.108)	0.267 (0.035)**
Successor preparedness	0.688 (0.001)***	0.182 (0.042)**	0.103 (0.245)
Formal succession planning	—	0.518 (0.001)***	0.166 (0.090)*
Control variables	Included	Included	Included
Observations	184	184	184
Model fit	LR χ^2 = 152.87***	F = 31.39***	F = 13.97***
Pseudo-R^2 / R^2	0.322	0.61	0.45

*Note: Coefficients are reported with p-values in parentheses. The formal succession planning model is estimated using ordered logit; ease of succession and post-succession performance are estimated using OLS. Control variables are included but not reported. *** p < .01; ** p < .05; * p < .10.*

5. Discussion

5.1. Financial literacy as a governance-enabling capability

The findings clarify where financial literacy matters in family-business succession. Financial literacy is strongly associated with formal succession planning, but not during leadership transition. This suggests that financial literacy matters most for preparing succession governance rather than for handing over leadership.

In family businesses, succession involves financially consequential decisions about ownership, valuation, financing, taxation and wealth transfer (Jansen, et al., 2023; Molly, et al., 2010). Financially capable decision-makers are therefore better equipped to weigh up succession options and turn intentions into documented governance arrangements. However, the evidence here does not support treating financial literacy as a general capability that improves every stage of succession equally. It is a governance-preparation capability, most useful when family firms design, evaluate, and formalise the succession arrangement itself. This narrows rather than inflates the claim that financial literacy improves all succession outcomes.

This also fits with the broader professionalisation literature where formal governance systems reduce reliance on informal, founder-centred decision-making and put clearer procedures for transferring authority in their place (Brumana, et al., 2015; Woodfield & Husted, 2017). Financial literacy likely

strengthens this shift by helping family members participate in governance design and engage more effectively with advisers.

5.2. Successor preparedness and external advice

Successor preparedness is positively associated with formal succession planning, supporting H2. This aligns with existing evidence that managerial experience, mentoring, and leadership development are central to effective succession (Lansberg and Astrachan, 1994; Le Breton-Miller et al., 2004; Venter et al., 2005; Bozer et al., 2017). A prepared successor reduces uncertainty about who will eventually lead. This appears to make it easier for the family to document responsibilities, establish a transition timetable and document decision rights. Financial literacy and successor preparedness represent distinct but complementary dimensions of governance preparation.

External adviser engagement is also positively associated with formal succession planning. Advisers may provide technical expertise in valuation, taxation, ownership restructuring and governance design, especially where family expertise is limited (Bertschi-Michel, et al., 2021; Wojtyra-Perlejewska & Koładkiewicz, 2024). Internal capability and external advice appear to work alongside each other in the preparation stage. However, the study does not test whether adviser engagement is more effective in firms with higher financial literacy. This is a useful direction for future research.

5.3. From governance preparation to leadership transition

Financial literacy is not directly associated with ease of succession once formal planning and successor preparedness are included. H3 is therefore not supported. By contrast, formal succession planning and successor preparedness are both positively associated with ease of succession, supporting H4 and H5. This aligns with process-based accounts of succession, which emphasise preparation, role transfer, communication, and successor capability (Handler, 1994; Le Breton-Miller et al., 2004; De Massis et al., 2008).

The evidence suggests that leadership transition depends on both governance structure and competence. Formal planning supplies the governance structure to transfer authority and manage uncertainty. Successor preparedness gives the human capability needed to take on responsibility. Financial literacy may still support this process indirectly through formal planning, although this study does not test that pathway.

5.4. Financial literacy and expected post-succession performance

Financial literacy is positively associated with expected post-succession business performance, supporting H6 and suggesting that financial capability remains relevant after succession. This is because financially capable decision-makers are better able to handle the investment, financing, liquidity and risk decisions the next generation faces once it takes control. However, the coefficient is smaller than one linking financial literacy and formal planning, which supports the staged view. That is, financial literacy is most directly linked to governance preparation, while post-succession performance likely depends on a

wider set of factors, including leadership capability, strategy, market conditions, and organisational resources.

Family control orientation is also positively associated with post-transition performance. This fits the Socioemotional Wealth perspective, which argues that family firms value ownership, influence and continuity alongside financial outcomes (Gómez-Mejía, et al., 2007; Grissa & Lakhal, 2022). However, this result may suggest that stronger family-control orientation is associated with more optimistic expectations rather than improved realised performance.

The negative association between business age and expected performance may reflect governance complexity and organisational inertia.

5.5. Implications for the Capability-Based Succession Pathway

The results suggest that financial literacy does not operate across the succession process in the same way. It is most strongly associated with formal succession planning. Its direct association with transition ease disappears when formal planning and successor preparedness are considered, while its association with expected post-succession performance remains positive but more modest.

This distinction is the main empirical payoff of the CBSP. Rather than treating financial literacy as a blanket predictor of succession success, the findings locate its strongest contribution specifically at the governance-preparation stage. Leadership transition depends more directly on the formal arrangements established before the transition and on the preparedness of the successor. Post-succession performance, in turn, appears to reflect financial capability together with a broader set of organisational and strategic factors.

The findings therefore support a more differentiated view of succession capability. Family businesses may require financial capability to design, write and evaluate succession details, human capability to implement the transition, and broader organisational capabilities to sustain performance once it is done.

6. Conclusion and Implications

This study examined whether financial literacy is associated with three stages of family-business succession in the UAE: formal succession planning, ease of succession and expected post-succession business performance. Using survey evidence from 188 family businesses, the results show that financial literacy is positively associated with formal succession planning and expected post-succession performance, but not with ease of succession once formal planning and successor preparedness are included.

The findings indicate a stage-specific role for financial literacy. Its strongest association is with governance preparation, where financial capability helps decision-makers work through ownership, financing, valuation, taxation and other financial dimensions of succession. During leadership transitions,

formal planning and successor preparedness matter more. After succession, financial literacy remains positively associated with business performance, although the relationship is more modest and performance likely depends on a wider range of organisational and market variables.

The study contributes to family-business research by treating financial literacy as a governance capability available through the firm's principal decision-makers. It also develops the Capability-Based Succession Pathway (CBSP), which distinguishes governance preparation, leadership transition and post-succession outcomes. The results provide preliminary support to this staged view, though they do not establish a causal pathway.

For family businesses, the takeaway is that financial capability should form part of succession preparation alongside formal governance arrangements and successor development. External advisers may complement internal capability where specialist expertise is required. For policymakers, formal family-business governance frameworks should be accompanied by measures that help firms implement them in practice.

Several limitations should be recognised. The study uses cross-sectional, self-reported data from a non-probability UAE sample, which limits causal inference. Financial literacy is self-assessed, and post-succession business performance is based on respondents' expectations rather than realised accounting or market-based indicators. Single-informant responses also carry some risk of method bias, though the study used procedural safeguards and examined collinearity diagnostics. The results should be read as evidence of associations rather than causality.

Future research could use longitudinal data, multiple respondents per firm and documented measures of post-succession performance. Comparative evidence from other GCC economies would also help establish whether the relationships identified in the UAE extend to other family-business settings.

Overall, financial literacy is relevant to family-business succession, but its role is more stage-specific than universal. It is tied most closely to the formalisation of succession planning, while transition ease relies more directly on formal planning and successor preparedness. This distinction places financial literacy within the governance process of succession, rather than treating it as a standalone attribute of the family-business owner. For family-business research, the implication is straightforward: financial capability matters more when embedded in the governance arrangements through which succession is actually prepared, documented, and carried out.

Declarations

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Author Contribution

Abderazak Bakhouche and Anissa wrote the main manuscript. Amal Almasafri wrote the methdology and reveiwed the manusript.Abdalla, Ahmad and Jaber prepared the survey and collected data.

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