

# Effects of the use of management control systems on financial leverage in start-ups: The interactive effect of financial literacy

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## Extended Abstract

This PhD proposal is a compendium of three research articles. The first paper<sup>1</sup> is a systematic literature review. The second paper which is the core of this proposal and deepens on the effects of management control systems (hereafter, MCS) on financial strategies in start-ups.

Recently, academics have tried to recognize the significant factors that determine the strategic decisions in start-ups (Chang & Hughes, 2012; Hervás-Oliver et al., 2016). Management and accounting literature in start-ups suggested that the use of MCS influences the strategies of innovation (e.g., Dávila et al., 2009; 2015) context adaptation (e.g., Laurinkeviciute & Stasiskiene, 2011), competitiveness (e.g., Barrar et al., 2002; García Pérez de Lema & Duréndez, 2007) or relationship with stakeholders (e.g., Dedman, et al., 2014; García-Osma et al., 2018). However, there is no evidence about the consequences of MCS to the financial strategies. According to Malagueño et al. (2018), the start-ups that can align MCS with their strategies achieve a higher level of success. Start-ups can conduct two main financial strategies associated with the level of financial leverage: (1) a conservative and short-term strategy based on lower levels of financial leverage to reduce financial costs and liquidity problems (Franck et al., 2010; Wamba et al., 2016), (2) an aggressive and long-term strategy based on higher levels of financial leverage to grow and expand the business (Danso et al., 2017; Mijić & Jakšić, 2017). Specifically, this investigation studies the association between the use of (financial and non-financial) MCS and the level of financial leverage. In addition, the article suggests that the impact of MCS on financial leverage depends on the entrepreneurs' financial literacy.

To provide empirical evidence, survey data gathered from entrepreneurs of 153 incubated start-ups in the period 2017–2019 is used. This setting provides a relevant context to conduct our investigation (Ittner et al., 2003) because business incubators have a significant focus on the adoption and use of MCS by start-ups (Soetanto & Jack, 2018) and offer financial formative plans to improve the financial literacy of the entrepreneurs (Sagath et al., 2019).

This investigation extends and complements the current literature for several reasons. (1) joins to research that tried to understand the drivers of start-up's strategies (e.g., Chang & Hughes, 2012; Hervás-Oliver et al., 2016), (2) extends the investigations that have analyzed the impact of MCS to the start-up's strategies (e.g., Dávila et al., 2009; Laurinkeviciute & Stasiskiene, 2011; Barrar et al., 2002; Dedman, et al., 2014) by deepening in their effect on the financial leverage strategy, (3) attends the request of

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<sup>1</sup> The paper aims to integrate the extant knowledge about the antecedents and consequences of the entrepreneurs' level of financial literacy on start-ups. Identify what is actually known and what are the main topics that need further investigation in this area is highly relevant to overcome the current fragmentation that are restraining research on this topic. The paper draws on the stepwise methodology suggested by Tranfield et al. (2003) developing a systematic integrative literature review, in a similar vein as Franco-Santos et al. (2012) did to integrate the consequences of contemporary performance measurement systems.

relevant national and international institutions to conduct research that analyzes the effect of entrepreneurs' financial literacy on the management of start-ups (OCDE, 2018). (4) continues the investigations which have suggested that human capital skills as financial literacy can influence the start-up's strategies (Peña, 2004, Ganotakis, 2010).

The third article<sup>2</sup> that compounds this PhD is yet in a conceptualization stage. Therefore, the remainder of this PhD proposal is structured as follows; Section 2 presents a summary of the systematic literature review (first paper). Sections 3, 4, 5 correspond to the second article that is actually in process of elaboration and the core of the project. Section 3 states the hypotheses, section 4 displays the methodology and section 5 pinpoints the results.

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<sup>2</sup> It will focus on the tension between the use of MCS and the development of innovations (efficiency-innovation dilemma) in start-ups (Chowdhury, 2011; Patel, 2011). Research on this question is gaining the attention of academics during the last years (Lill et al., 2020). Entrepreneurs' financial literacy has been considered as a relevant factor both on the use of MCS and on the development of innovation initiatives. So, this article will extend the research on the efficiency-innovation dilemma in start-ups by deepening on the influence of the entrepreneurs' level of financial literacy.

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