

Funding Innovation, Development and Restructuring: A Study of a Czech Engineering Manufacturer

Dr Irena Jindrichovska, University of Economics and Management in Prague

Abstract

Successful and mature corporations can alter their financial structure and optimize their debt asset ratio according to their needs. This is not, however, so easy for companies in the start-up phase, when entrepreneurs have to rely almost ultimately on equity funding. This paper concentrates on the early stage of corporation's development and on its sources of funding from venture capital. As an illustration it presents a history of funding and further development of medium sized Czech company.

Keywords: innovations, venture capital, capital structure

JEL classification: M13, M21

Corresponding author:

Dr Irena Jindrichovska
Department of Business Economics
University of Economics and Management
Narožní 9a
Praha 5
150 09
Czech Republic

Contact details:

Tel: 00420 774 550 810
e-mail: irena.jindrichovska@vsem.cz
www: <http://jindrichovska.webovka.eu/index.html>

1. Introduction

Capital structure is one of the core topics of corporate finance since 1950s. The investigation of the determinants of corporate capital structure is and has been one of the most active fields in finance for decades. The Modigliani-Miller theorem from 1958 forms the basis for modern thinking on corporation's capital structure. In the following period, from the number of published papers concerning capital structure, it is apparent that capital structure is an important, difficult and complex subject.

Every company would like to have a capital structure which is best fitted to their current situation that minimizes the cost of capital. Since the introduction of limited liability in British company law in 1855 companies have a choice of changing capital structure relatively easily. However, this is not the same during the whole lifetime of the company. Capital structure changes during the lifecycle of a company mainly because the financial needs of the company change and so does the free cash flow generated in each phase of corporate development. Generation of free cash flow influences the self-funding potential. This is a tricky issue in every stage of corporate development because it influences financial flexibility and corporate debt capacity. These issues have been discussed in two major financial theories pecking order theory (Myers and Majluf, 1984 and Myers, 1984) and trade-off theory (DeAngelo and Masulis, 1980)

This article concentrates on funding in the initial stage of corporation's life. Successful and mature corporations can change their financial structure and optimize their debt asset ratio according to their needs. This is not, however, so easy for companies in the start-up phase, when entrepreneurs have to rely almost ultimately on equity funding. The case study included in this paper looks into the case of Czech medium-sized company that was helped by the EBRD.

In the initial stage of existence, when the company starts as a new venture, companies are financed by equity sources. For acquiring the assets the company can use various sources, however, the choices are limited in the introductory phase. In the initial stage the company has to rely on founders' sources. The reasons for difficulties are (1) the high degree of risk involved in a new venture, (2) the problem of information asymmetry, (3) the nature of productive assets that the company needs to realize its venture, which is often non-traditional and highly innovative, and therefore difficult to assess by traditional methods used by lending institutions.

During the next stages of lifetime the company can obtain financial means from different resources. It also depends on self-financing capacity, which is becoming very popular in innovative companies. Recently we have observed this motion in novelty sectors like communication, mobile phones and alternative technologies. It can be concluded, that in general as the company matures lending institutions are willing to provide finance more readily.

This is especially true at maturity phase, when the company already proved its merits and it has shown its potential. In this phase, the company increases sales, number of employees and productive assets in general. The company also generates free cash flow that can be used for dividend payouts and/or for development of further innovations. Towards end of maturity phase the company perceives decline of sales and decrease of growth potential and needs to strive for another innovation and lay basis for new product to attract new clients and increase sales. It can also attempt to restructure its existing organisational structure and merge with new company in the sector or diversify to another field. Capital

structure of company will be responding to changes in activities and in generation of free cash flow.

The structure of this paper is as follows: The first part is an introduction, the second part discusses problems of allocation of sufficient capital when forming a new firm and pros and cons of venture capital funding. The third part gives a brief overview of recent development of venture capital funding in the US in comparison with European experience. The fourth part presents a case study on one medium sized Czech company established in the early 1990s and its innovation potential developed with help of European funding. The fifth part concludes.

2. Pros and cons of venture capital funding

Starting a new business is risky and most of the new companies fail. It is difficult to identify which firms will be successful in the competing world. Lending institutions are naturally adverse to risk and most suppliers of capital hesitate to undertake high risk investments. Moreover, this attitude is enforced by rules and regulations restricting their conduct. Another reason for funding difficulties is information asymmetry that lies behind all transactions of the new company. It arises when one party to a transaction has knowledge that the other party cannot have. The entrepreneur knows more about his or her company prospects, than the financial institution does. When company deals with highly specialised technologies or companies in new areas or new markets financial institutions do not have the expertise to distinguish between competitive and non-competitive projects and competent and incompetent entrepreneurs.

Productive assets are another cause for difficulties. Lenders understand operations of traditional firms wanting to change their equipment or purchase a new product line – tangible assets machinery equipment buildings and physical inventory. Lenders understand “traditional” risk and are willing to make loans to them. However, if a new company wants to acquire a new often intangible asset – patents or trade secrets it is difficult to secure financing from traditional lending sources.

Firstly the entrepreneur has to provide his or her own financing then venture capitalists provide equity financing. Venture capital is important because new entrepreneurs in emerging stage have only limited access to traditional sources of financing. The most important sources of venture capital are private and public venture funds. Other sources include financial insurance firms, public pension funds, endowments and foundations.¹

The industry of venture capital is specializing in different sectors. The first venture capital fund was created as a venture capital limited partnership formation in 1946. ADR, American Research and Development was created to raise funds from wealthy individuals and college endowments and invest them in entrepreneurial start-ups in technology-based manufacturing.²

The industry significantly developed in 1960s in the USA but much less in Europe. Many of today's most dynamic and successful corporations received venture capital at the initial stages of their lives: eg. Amazon, Intel, Microsoft, Apple, Cisco, e-Bay or SunMicrosystem. Dynamic firms in traditional services, like Federal Express, Staples, or Starbucks, also received a sizeable share of venture finance (Bottazzi and DaRin, 2002, p

¹ More information on venture capital activity can be found on <http://www.nvca.org/> and on <http://www.evca.eu/> [accessed on 9.11.2010]

² More information on ADR can be found on http://en.wikipedia.org/wiki/American_Research_and_Development_Corporation, [accessed on 9.11.2010]

233). Today, the venture capital industry consists of several thousands professionals at about one thousand venture capital firms. The biggest concentration of forms is in California and Massachusetts. Modern venture capital firms tend to specialize in a specific line of business like medical services or new technology investments.³

The venture capital cycle consists of several stages.⁴

The stages and roles of venture capital financing

Seed finance: Small investment, in the order of a few hundred thousand euros at most, which allows an entrepreneur to verify whether his project is feasible and economically attractive. At this stage the venture capitalist helps explore the viability of a project.

Start-up finance: Investment aimed at making a firm operational by attracting the necessary employees and executives, developing a prototype and/or implementing marketing tests. At this stage the venture capitalist may become involved in the organization of the company. His contribution to shaping corporate strategy is felt most heavily at this stage.

Expansion finance: Investment aimed at reaching the scale of industrial production, upgrading the production facilities and attracting further employees. At this stage the venture capitalist may help find additional financing and help the company contact clients and suppliers. As the company grows and needs revenue, he may also help recruit marketing and other non-technical executives.

Later stage finance: Investment aimed at helping the firm grow fast enough to become a market leader and unleash its earning potential and to make it ready for a trade sale or for listing on a stock exchange. At this stage the venture capitalist may help set the stage for either a trade sale or an Initial Public Offering.

Adopted from Bottazzi, Laura and Da Rin, Marco (2002, p. 239)

When the new company is well established venture funds will exit through a private or public sale of their equity. The duration of the cycle is typically five to seven years. Risky capital funds do not stay in the companies they help with establishment. Usually they stay with the company until it is a successful going concern and can be launched on the public market or sold to strategic private investors.

However, venture capitalists with their knowledge of the market can also play an important role in the process of going public. Their experience often helps companies to choose the most favourable time for their Initial Public Offering (IPO) and therefore their experience can lower under-pricing effect. Venture-backed companies which went public in the US in the 1970s and 1980s also often out-perform non venture-backed companies over five years. (Brav and Gompers, 1997)

In the subsequent growth phase the accent is given to innovation and acquisition of new equipment or and new finances are needed for production. The role of venture funding is also significant and in venture capital terminology this is typically understood as the “later

³ See for example <http://www.missouribusiness.net/> [accessed on 9.11.2010]

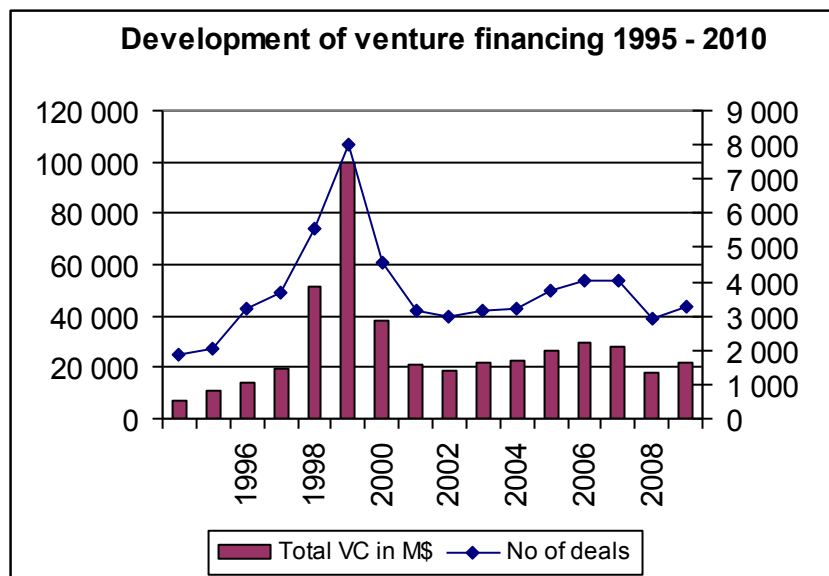
⁴ More on venture capital funding cycle can be found on http://www.missouribusiness.net/sbtdc/docs/seed_capital_funding.asp [accessed on 9.11.2010]

stage finance”. The company is already considered established in its field and has much broader spectrum of financing possibilities.

3. Impact of the recent financial crisis on venture capital industry and features of European venture capital industry

It has been observed that after the general economic crisis which started on the American mortgage markets in 2007 and effectively spread-out over the whole world the behavioural pattern of venture capital funds has modified. It remains to be judged later whether this change of behaviour is permanent or temporary. Firstly, the money invested in venture funds have decreased in total as can be observed on Chart 1. The industry spectrum has also modified. Venture funds are prepared to stay in a company for longer time, but the choice is more selective. The perceived risk has increased also the sectors in which venture fund invests change slightly. Furthermore there are big investment funded by mature companies in the sector.

Chart 1. Corporate Venture Capital Group Investment Analysis 1995 - 2010



Source: PricewaterhouseCoopers/National Venture Capital Association MoneyTree™ Report,
Data: Thomson Reuters <http://www.nvca.org/> [consulted on 15.3.2011]

In the last quarter of 2010 the investment activity decreased by 31 percent in terms of dollars and by 19 per cent in number of deals. The decrease in dollars invested was largely due to the absence of big investment deals in the Clean Technology sector, which drove last higher investment levels in the last period. Generally, investment in all industry sectors slowed down.

“While overall funding in traditionally strong sectors like Life Sciences and popular Clean Technology were down, Biotechnology continued to bring in significant funding while software took the lead as the top generator of VC funds”

T. Lefteroff, global managing partner of the VC practice at PwC.

<http://www.nvca.org/> consulted on 19.3.2011.

See also Table 1 for illustration.

For full year 2010, 157 venture capital funds raised \$12.3 billion, which was the fourth consecutive year of declines and the slowest annual period for venture capital fundraising since 2003. The industry outlook for the immediate future implies that a limited number of venture firms will be able to successfully raise new funds in 2011.

"The continued downsizing of the venture industry has positive implications for investors and entrepreneurs. An agile venture capital model likely translates into more capital efficient and fewer duplicative deals in the IT arena as well as less capital intensive deals in the life science and clean technology arenas."

Mark Heesen president of the NVCA. <http://www.nvca.org/> [consulted on 19.3.2011]

Table 1. The overview if innovative sectors in the American venture funds.

Industry	2010 Total
Biotechnology	\$ 3 685 517 300
Business Products and Services	\$ 448 006 500
Computers and Peripherals	\$ 516 613 500
Consumer Products and Services	\$ 528 993 800
Electronics/Instrumentation	\$ 375 237 100
Financial Services	\$ 527 928 900
Healthcare Services	\$ 272 922 700
Industrial/Energy	\$ 3 358 014 200
IT Services	\$ 1 668 420 200
Media and Entertainment	\$ 1 422 479 100
Medical Devices and Equipment	\$ 2 315 860 500
Networking and Equipment	\$ 665 840 100
Other	\$ 26 122 000
Retailing/Distribution	\$ 177 278 200
Semiconductors	\$ 951 716 800
Software	\$ 3 963 806 900
Telecommunications	\$ 918 622 300
Grand Total	\$ 21 823 380 100

Source: <http://www.nvca.org/> [accessed on 25.3.2010]

Still, venture investors continued to invest more into first-time deals versus existing companies. This suggests a confidence in today's entrepreneurs and innovators. It seems that the most innovative and efficient companies will continue to be funded by the venture community.

"It is important to reiterate that when it comes to venture capital returns, history has shown that often „less is more“. As the year progresses and the exit market continues to improve, we expect better performance from established funds as well as from recently raised funds which have the opportunity to invest in great companies at a time when valuations are more reasonable and the economy as a whole points upward."

Continuation Mark Heesen president of the NVCA. <http://www.nvca.org/> consulted on 19.3.2011

Compared to the US market, venture capital industry in Europe is rather slow-moving and immature and European stock exchanges are perceived as rather hostile towards young firms. This has been found as a major obstacle to innovation. In general on one side,

entrepreneurial firms are viewed as major contributors to economic growth and to the creation of new jobs and venture capital as an important tool for job creation, technological innovation, export growth, and regional development (European Investment Bank, 2001). There is a feeling that Europe's growth problems may be caused not as much by rigidities in labor markets, as by weaknesses in capital markets, in the access to risk capital in particular.

This raises important policy issues. It is crucial to understand whether any industrial policy and regulation can actually contribute to the growth of a dynamic venture capital industry in Europe. European official documents, and also industry reports like the White Paper of the European Venture Capital Association (EVCA, 1998), focus on the supply of funds and on the creation of favorable structural conditions for entrepreneurs. But it is not clear which policy would be most appropriate to support venture capital in Europe.

In the paper of Bottazzi and DaRin (2002) the authors develop a systematic analysis of venture capital in Europe. To get around the shortage of data on European venture capital, the authors have exploited a new market Euro.nm. This was established in 1997 as an alliance of Europe's 'new' stock markets for innovative companies in high-growth industries – an analogy to the US Nasdaq. Euro.nm represented the 'new' markets of Amsterdam, Brussels, Frankfurt, Paris, and later also Milan. Unfortunately this market disentangled as an alliance in December 2000, but its five members have continued to operate independently. Over its short life span, Euro.nm has allowed nearly 600 companies to list on public markets and raise over 40 billion euros of equity capital.⁵

Up until the early 1990s, venture capital remained essentially an American phenomenon. Its success in supporting dynamic companies which create jobs and wealth brought many governments to look for ways to support a national venture capital industry. At the same time, the high returns enjoyed by US venture capital firms induced venture funds to become active also in other countries. Venture capital is by now a sizeable industry also in Europe and Asia.

In Europe the innovative startups were usually financed by banks and government funds. Banks are less flexible in their policies. Furthermore the regulation in Europe is more restrictive and more limiting, which is probably given by inherent bureaucracy in all EU systems.

4. Case study: using European funding in a Czech company

An interesting case of European funding of growth and restructuring can be illustrated by a Czech company Korado, a.s, which specializes in design and production of heating radiators.⁶ The firm was established in 1990 as a small Czech company. Over the last twenty years it has come from virtually nothing to being one of the largest European producers of heating radiators. At the very beginning, Korado took over the tradition of manufacturing steel radiators in the plant of the company Koventa, which was acquired in the Czech small-scale privatisation in the early 1990s. During the subsequent years Korado expanded significantly and modernised its production. This allowed the company to build a new plant in Česká Třebová in the region of Eastern Bohemia.

It must be stressed, that company Korado has become one of the main European leaders in the field without connection to any foreign strategic manufacturer and using only its own

⁵ Details on Euro.nm are on <http://www.banque-france.fr/fondation/fr/telechar/chatelain.pdf> [accessed on 6.4.2011]

⁶ The major source of information about the company is at <http://www.Korado.com/> [accessed on 19.11.2010]

know-how, the Nowadays, it presents and jointly sets the new trends in the entire field of heating. At present Korado dominates the Czech market and it competes very successfully on foreign markets in Europe and other continents in countries such as Japan and China. Among the major achievements the company accomplished belongs one of the most modern production plants in Europe.

The funding and a brief history

Korado was founded as the company Korado, s. r. o. in 1990, with initial equity of CZK 100,000. The founders were the current major shareholders. The small enterprise Koventa was privatized in 1991 by of auction for the price of CZK 130 million (approx. 7.5 million USD). After privatization the plant was modernised and production began. In 1993 the company reached its maximum production capacity and by that time the company repaid loans provided by the bank for the purchase of the original plant. In 1994 there was the first significant increase in equity of the company to the value of CZK 5 million. A decision was taken to build a new heating radiator production plant on a green field. Detailed business plan for construction of the new Korado plant was processed and detailed business plan was prepared. In 1996 the company was transformed into a joint-stock company and equity was increased to CZK 880 million. The company initiated the construction of the new Korado plant with a value of almost CZK 3 billion.

In 1997 there was a capital entry of the European Bank for Reconstruction and Development (EBRD) in the company by means of a CZK 1.03 billion investment. This has increased equity to CZK 1.580 billion. In the same year the company gained the ISO 9001 certificate and production in the newly built plant in Česká Třebová started. In 1998 Korado acquired of 98.2 % ownership interest in production plant in Bulgaria and its complete consolidation.

In the years 1998-1999 Restructuring project "Korado 2000" was performed and at the end of 1999 Česká spořitelna, a. s., transferred the loans provided to Korado to Konsolidační banka Praha, s. p. ú. Comprehensive restructuring of loan portfolio by Konsolidační banka was performed in 2000. This resulted in a significant reduction in interest burden and financial stabilisation of the company. This resulted in reduction in equity of the company by the overall unpaid accumulated losses of past years in the amount of CZK 1.027 million. Subsequently, after agreement with the shareholders, increase of company equity on the part of Konsolidační banka by CZK 287.7 million to a value of CZK 840.7 million. Continuous annual growth in the number of radiators produced in 2001, first time ever for an interim drop in revenue caused by a global drop in sales, lowering of sales prices and the negative development of the exchange rate for the CZK in comparison to foreign currencies.

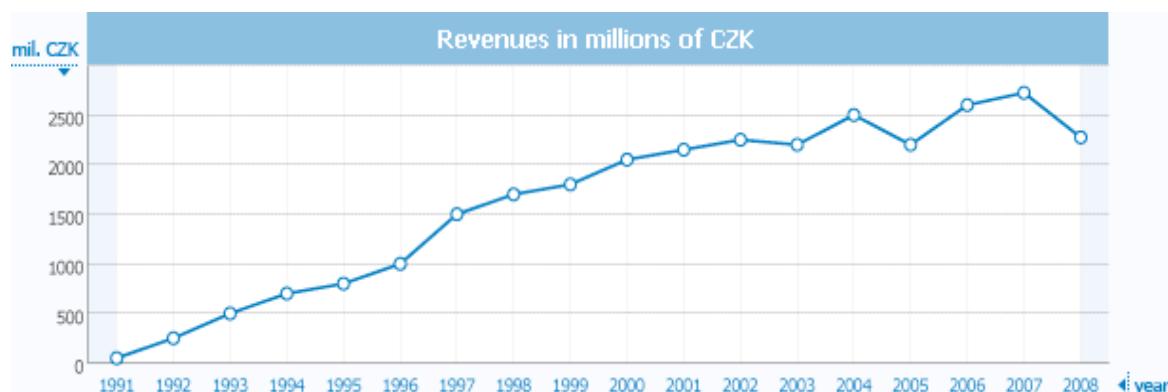
At the same time, the process of looking for a strategic investor commenced for the support of the position of Korado on international markets. Year 2002 marked a turnaround in company economic management, when Korado, a.s. once again achieved a positive economic result after losses in the four preceding years. The level of this positive result was 31 million CZK. Significant restructuring of the largest subsidiary companies - Korado Polska, Korado Austria and Korado Deutschland - commenced, with the aim of increasing the capital return of investments made. The positive influence of organisational changes accomplished in the 2nd half of 2002 lowered of the company's credit burden by 20%. Interim production growth of the main product has risen by 9,5%. The final economic result of the company was at the level of 111 million CZK. In 2004 the company produced and sold a record-breaking amount of panel heaters. This contributed to consolidation of a market position among the European producers of radiators. In 2006 for

the first time ever the company we produced and sold more than 2 million steel panel radiators. The year-to-year increase in sales of steel panel radiators was more than 20%.

Investment in new production technologies in the total amount of CZK 700 million was completed in 2007. This was the second biggest investment in the history of the company Korado, and in the same year the company Korado, a.s. achieved the biggest turnover in its history: 2.734 billion CZK which is about 105 million EUR. Subsequently, the new production line was launched of and increased the capacity of steel panel radiators by 40% to 2,8 million pieces.

The graph below shows the development of company sales since its establishment in 1991.

Chart 2. Korado's revenues in millions of CZK



Source: http://www.Korado.cz/cs/spolecnost/Korado_v_cislech.shtml [accessed on 19.11.2010]

Certificates of quality and high quality achievements

High quality of production remains an imperative of today's successful company. Korado made every effort to gain necessary certifications to prove and establish a high quality products. Certificates are now necessary and quality and durability come as standard. To maintain a high position on competitive market the company needs to prove the quality of its products and technology procedures. For the majority of experts, business partners and end customers throughout Europe, the production brand Korado is today a guarantee of high quality, durability, top-of-the-range technical parameters at acceptable prices. But gaining this reputation required long-term intensive efforts on the part of many of the company's technical and marketing employees. This culminated in the construction of the most modern European production plant for radiators and the awarding of a certificate which confirms the compliance of the production system with the international standard of the demanding norm ISO 9001:2000.⁷

The high quality of the of Korado products is further proved by acquiring the national quality marks RAL, BSI for the most demanding European countries. Quality marks for other important markets, such as the Russian mark GOST, are also available. These quality

⁷ The company attained the recognized quality standard

certificates ascertain that the high demands on the quality of used materials, construction and production technologies of the radiators RADIK and KORALUX and their regular testing are followed.



The quality management system ISO 9001:2000 combined with the national quality standards confirms the highest degree of quality of the products and of all activities of Korado company on the European and world's markets.⁸

On 1st June 2010 Korado company issued the [EC conformity declaration](#) (PDF, 40 kB) for the radiators RADIK, KORALUX and KORATHERM. The conformity is declared together with the CE mark placed on the products and in the technical documentation.



Complying with environmental requirements

There is a great emphasis on care for the environment already in the design phase for the new production plant. Korado has built one of the most environmentally friendly plant and has thus become one to the resource-saving manufacturers in the field of engineering, not just in the Czech Republic but in the wider European context. This is evidenced, for example, by energy-saving heat recovery system which is operating during the production process or by the comprehensively designed project of waste management, handling of chemicals and prevention of accidents. Attention has been given to a detailed examination of waste water. This particular programme will be developed further. The fact that Korado cooperates with the renowned Danish group Marius Pedersen, which has carried out detailed checks and audits in the area of environment of the firm's activity since the year 2000 is one example which shows that Korado considers the issue of environmental protection very responsibly.⁹

Corporate social responsibility of a medium sized company - R&D and employees

Remaining at the very peak in terms of quality of production and the technical parameters of products requires continuous technical and design development in addition to modern production technology. For this reason Korado employs leading Czech and foreign technical experts who enable the company to regularly expand the production range, to improve the existing products and improve other technical and utility and aesthetic

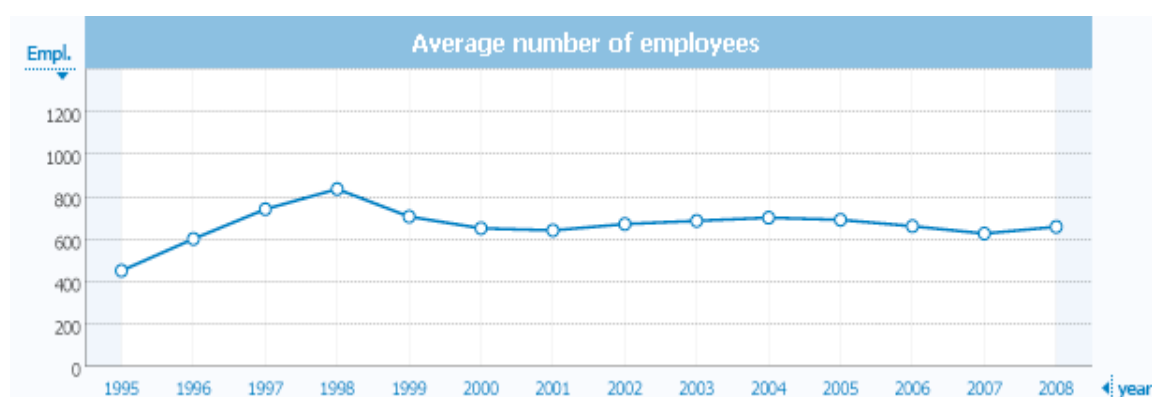
⁸ More details on Korados' quality are on: <http://www.korado.com/en/products/radiators-radik/general-information/certification-radik.shtml>

⁹ More detail on Mirius Pedersem is on: <http://www.mariuspedersen.cz/index.php?firm=1&node=50&frommenu=1>

properties. In view of the scope of its activity, Korado also works with many Czech and foreign freelance workers and professional associations. Regular contact with expert and non-professional customers provides the company with feedback and essential field experience which Korado directly applies in its further technical development and in the actual production. The company pays attention to the requirements of its clients and is accommodating as possible towards them. Proof of this is the scope of its production range, with more than 10,000 different products. Korado, a. s., is a young and dynamic company which places heavy demands on the quality management and control of production, sales activity, technical development, production work, communication, information technology and marketing activities.

Korado is historically the youngest company in the elite group of Europe's main manufacturers of heating radiators, which qualifies its status as a modern, dynamic company. This is also the reason why the company places such high demands on its employees.

Chart 3. Korado's number of employees



Source: [Korado in figures](#) [accessed on 19.11.2010]

The reward for the more than 600 employees which Korado employs directly in the Czech Republic and in seven foreign subsidiaries is a high-quality working environment and above-average financial remuneration, including a targeted system of bonuses where every employee can actively influence the level of his compensation.

Other advantages, which come from the strong base of a prosperous company of a Europe-wide standard, is a well designed training and education system, intense application of modern information technology and social certainty for employees. In order to maintain a high level of development Korado is constantly on the lookout for capable employees of many professions from amongst the ranks of graduates and experienced specialists.

Nowadays the Czech company Korado belongs to world leading manufacturers of steel radiators. The quality of Korado's radiators has been verified by more than 25 million customers around the world. To satisfy special customers' demands the company uses the advantage of gained experience.

The company is a reliable employer in its region. It employs between 600 and 650 qualified employees. As overall duality company cares about high duality employees and their appropriate training. Taking into consideration that Korado is a medium sized company the program for employees is in line with usual CSR standards enabling further development of the firm and employees.

5. Conclusion

Venture capital is considered to be the most appropriate form of financing for new firms in general and for innovative firms in high-tech sectors in particular. Since the establishment of the first private foundation ADR - American Research and Development Corporation in 1946 the venture capital industry has developed a great potential. This continues to develop in current century after initial slowdown caused by American crisis 2007. Venture capital is effective in helping the new firms to overcome credit constraints, and thus to be established and develop their potential.

It can be concluded that even though the conditions of venture capital financing may be limiting and constraining for some companies, it is a good possibility for pursuing innovations and reaching the scale of industrial production for innovative companies. Venture capital can also help new ventures upgrading the production facilities and attracting further employees and key executives and getting established on new promising markets.

In the case study of the Czech company Korado we have learned how a small sized company with the use of appropriate financial resources can overcome both major problems of initial set-up and subsequent as market slowdowns. Obviously, without quality and entrepreneurial spirit of company management this would be impossible. The European Bank of Reconstruction and Development helped Korado to establish a major business on the market and to develop top of the range product. Further development on the financial front and acquisitions or creation of international subsidiary companies has lead to greater span of production whilst maintaining a high quality core product.

In the future development one may see some outsourcing and international diversification of this company production. So far, however, the company concentrates its production mainly in the region of Ceska Trebova in Eastern Bohemia and helps to maintain employment in the region. The company is a good patriot and it is a good and socially responsible corporation contributing to its region and a good regional employer. Moreover, looking ah on the international front it has become a standard setter in its area of expertise. The study of Korado shows the case where innovation and good organisational skills helped to create internationally recognized trademark. Taking in consideration the skills of the Czech employees and the company's ability to find its own route, one can say, that Korado is a good example of a successful Czech company.

There are many avenues how this research could be extended. One of them is the topic of innovations and innovations funding. Another field worth exploring is the capital structure of companies and its changes during the lifecycle. Supporting topic is an industrial innovation per se: how are they motivated financed and protected against dishonest competition.

References:

Bender, Ruth and Keith Ward (2005) *Corporate Financial Strategy*, Butterworth-Heinemann, 2nd ed.

Brav, Alon, and Paul Gompers (1997), 'Myth or Reality? The Long-run Underperformance of Initial Public Offering: Evidence from Venture and Nonventure-backed Companies,' *Journal of Finance*, 52 (4) 1791-1820.

Bottazzi, Laura and Marco Da Rin, (2002) Venture Capital in Europe and the Financing of Innovative Companies, *Economic Policy*, v.34, 229-69, April 2002.

EVCA - European Private Equity and Venture Capital Association on <http://www.evca.eu/>

DeAngelo H. and R. Masulis (1980), Optimal Capital Structure under Corporate and Personal Taxation, *Journal of Financial Economics*, 8, 3-29

Demirag, Istemi Ed.(2005) *Corporate Social Responsibility, Accountability and Governance*, Greenleaf Publishing, Sheffield

Griseri, Paul and Nina Seppala (2010) *Business Ethics and Corporate Social Responsibility*, Cengage Learning, Andover.

Modigliani, Franco and Merton Miller, (1958) The Cost of Capital, Corporation Finance and the Theory of Investment, *The American Economic Review*, Vol. 48, No. 3., pp. 261-297.

Myers, S. C. (1984), The Capital Structure Puzzle, *Journal of Finance*, 39, 575-592

Myers, S. C. and Majluf, N. (1984), Corporate Financing and Investment Decisions when Firms have Information that Investors do not have, *Journal of Financial Economics*, 13, 187-221

National venture capital association on <http://www.nvca.org/>

Parrino, Robert and David Kidwell (2009) *Fundamentals of Corporate Finance*, Wiley and Sons, Inc. Hoboken.

Solomon, Jill (2007) *Corporate Governance and Accountability*, John Wiley, 2nd ed.