Chapter 7
Financial Sources for Company Scale-Up

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ABSTRACT

This chapter deals with the reinvestment activity of enterprises. Reinvestments are commonly discussed in connection with public limited liability companies, where the general meeting of shareholders decides how much of the profit, they will redistribute among themselves and how many per cents they will return by reinvesting in the company. However, this chapter often deals with smaller companies, but for many companies these decisions are of an existential nature. These dilemmas are crucial for the company in terms of the direction of the company and determining its own character and focus. In these companies, the direction of funds is decided by the company managers or their owners. Each company is specific, both in its area of business, its strategy or its nature of development, this and many other factors influence what companies invest in or, as in this case, reinvest their funds.

INTRODUCTION

Several factors are required for successful reinvestment. First, to invest in at least one of the segments of the company. Furthermore, it is necessary for the company to be successful and thus to gain profits from the segment in which the previous investment was made. The company must be able to quantify the profit from the investment and decide what will happen to the profit. Therefore, there is a decision-making process, where and how much money will be redirected back to the company and how much will be redistributed among the owners. If the owners and the possible management of the company (if it affects this aspect) decide to reinvest, then there is a process of deciding where and how much money will be sent within the company. This is a brief description of the reinvestment process. Next, we will look at the different parts of this process in more detail. We will learn more about the research and get acquainted with the typical entrepreneur. The research is based on data collection from 128 respondents. These respondents are managers of different companies. Research respondents divide their innovation into pure and combined, as described in the background section of this chapter.

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The main objective of this chapter is to find out where business owners or authorized company managers direct their financial flows, even on a theoretical basis.

BACKGROUND

As indicated above, in this subchapter we will learn the basic principles of the emergence and subsequent direction of reinvestment. Reinvestment is commonly articulated in the context of entrepreneurship, more specifically a successful business, as the business aims to maximize profits, being the principles of economic policy, as stated by Baumol and Blinder (2016). There are also many definitions in this general theory, especially in the Czech business environment, such as the purpose of own-account entrepreneurship and the responsibility of gainful employment in the business or in a similar sense with the intention of doing business (new civil law) Code 89/2012, § 420). According to Veber and Srpova (2012), there are other types of success in business, for example, creativity that helps to develop itself and the company so that the company is not standing but dynamic. Sustainable development is one of the fundamental principles of business and is reflected in all business decisions that create a functioning, prosperous business. Allocation of revenues, acquisition of financial resources, investments or reinvestment, ability to create value and thus to successfully run a business in the long term and become a good entrepreneur (Režňáková, 2012). This view is consistent with the general treatment of a rational person, who should behave according to capitalist principles and should rather invest in what will bring value to him in the future and not in passing goods (Lane 2007). Such business is characterized by a positive economic result. This condition is an insurmountable obstacle for many entrepreneurs, because according to data from the Czech Statistical Office, up to 70% of companies do not meet with success, i.e. a positive economic result and will close their activities in the first year of their activity. Indeed, the number of entrepreneurs in the first year of business is startling and this trend is even more shocking in the longer term, for example five years, as up to 90% of entrepreneurs close down within five years of starting their business (Srpová and Řehoř, 2010). So, if a company achieves an imaginary goal and therefore produces a profit, then there is a business dilemma what to do with the desired and certainly blackened business success subsequently.

However, let us return to the concept of reinvestment, it is a question of return on profits for business. If we start with a lower level of this word, investments are sometimes characterized as deferred consumption. Reinvestment is, therefore, part of the company’s profits directed to the same company, with even higher profits expected in the longer term, Synek (2007) divides it into three areas: financial, tangible and intangible investments. This investment (reinvestment) carries its own risks, so it is a good idea to use risk diversification to reinvest in different business areas. The company can invest in many different business activities. This is determined by the type of company, for example, the innovative potential of the company and its research or the overall strategy of the company. Reinvestment is typically characterized by reinvestment areas: science and research, human resources, for example, in attracting new employees who can be hired to develop innovations that make companies more profitable or competitive in new markets (Hasak and Pyka, 2007, Chakravarty and Xiang, 2011). This process is best illustrated in the decision diagram below (Figure 1).

This scheme (Figure 1) starts with the already mentioned profit of the company. And the already mentioned dilemma predominantly of the owner or owners of the company begins, or one can take into account the management positions of the company, where it is possible to present certain alternatives.
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