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Early Stage Investment in the South East Europe:

Issues and Challenges

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Early Stage Investment in Southeast Europe: Issues and Challenges

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Kosovo*
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FYROM – FYR of Macedonia – Republic of Macedonia
We accept that some of the authors use “Republic of Macedonia” or “FYR of Macedonia” instead of the international provisional name “The former Yugoslav Republic of Macedonia” meaning the same state entity.

Contents

Executive Summary

This paper attempts to identify the main issues and challenges facing early stage investment in Southeast Europe and provide guidelines for steps to be taken to tackle them. To this end, a qualitative approach is taken to gather information from ten (10) stakeholders from seven (7) Southeast European countries – Former Yugoslav Republic (F.Y.R) of Macedonia, Slovenia, Croatia, Greece, Montenegro, Turkey, Bulgaria – and Kosovo. Data is collected through a structured group interview containing 6 open-ended questions, conducted at the World Business Angels Investment Forum in 2016. The questions were formulated on the basis of a literature review, which included relevant academic articles published after 2005. The constrained nature of the group interview resulted in limited time and control over its proceedings. Additionally, the highly qualitative nature of the research may raise concerns as to the generalizability of the results.

The study finds an unfavorable investment culture and lack of information to be some of the most significant impediments in the early stage investment industry in most of the countries under scrutiny. Additionally, government involvement and developing effective intermediary institutions to support communication between stakeholders in the industry are found to be equally significant. The findings are in line with the theoretical foundations observed in the literature review with regards to the institutional, stakeholder and organizational communication theories.

Immediate actions necessary for the improvement of early stage investment in the region are identified to be:

1. Creating a platform for the free flow of information, which can be done both by the government and by industry organizations such as intermediaries;
2. Adopting successful strategies that are employed in countries or regions where early stage investment is more developed than in Southeast Europe;
3. Implementing favorable government policies that provide incentives for early stage investment.

The study adds to the scarce academic literature available on the topic of early stage investment in Southeast Europe. As the interviewees are directly involved in the early stage investment ecosystem, their answers provide a unique contribution by identifying specific issues that they have personally dealt with in their respective countries.

Keywords

Southeast Europe, early stage investment, investment barriers, entrepreneurship, entrepreneurial finance, business angels, startups, innovative SMEs, corporate venturing

Introduction

In today's globalized world, economic success has come to depend largely on the development of entrepreneurial and innovative activities, which are widely regarded as catalysts for the growth of an economy (Naudé, 2011). Entrepreneurship has the ability to impact positively various socio-economic aspects in a country. However, it can only thrive if equipped with a well-developed ecosystem, with coordination between all relevant stakeholders. As awareness of the potential benefits that can be reaped from entrepreneurship and the issues it must overcome has become widespread, so has academic research around the subject (Fraser et al., 2015; Lerner, 2010; Mason and Kwok, 2010). Proper functioning of the entrepreneurial ecosystem is only possible with sufficient funding, particularly at the early stages of a startup's existence, when it is most vulnerable. The subject of early stage investment is a complex one and still requires thorough research to be better understood. The development of early stage investment varies across the world, but it is sorely needed in Southeast Europe (SEE), which has faced significant impasses in the process of catching up with the rest of Europe and the world in terms of economic development and innovation (Szerb et al., 2013).

Some of these difficulties can be ascribed to the communist legacies prevalent in certain SEE countries. The transition from a centrally planned economy to a market economy is a multi-faceted one, as it requires completely redefining the government's role in business. Thus, it is not surprising that the economies undergoing this process have been greatly affected, and not all of them have had the same success in adjusting to capitalism (Smallbone and Welter, 2010). While in some cases joining the EU (or plans to do so) may have had a positive effect on the enthusiasm with which governments embraced the transition and the role entrepreneurship played in it, other countries that did not have the same incentive lagged behind (Smallbone and Welter, 2012). According to Ribnikar and Košak (2011), much of the transition in the countries that formerly made up Yugoslavia (which includes five (5) of the countries involved in the present study) has taken place in a rather non-transparent way and, most likely, in an environment characterized by corruption. Understandably, this must have hindered the post-socialist development of these countries quite significantly. As seen in Pathak et al. (2015), high corruption levels also affect the way potential entrepreneurs perceive their opportunities.

Considering the developmental landscape discussed above, this article attempts to shed light on the early stage funding conditions in the SEE region by conducting a thorough literature review of available research and interviewing stakeholders intimately involved in the process and prominent both in their respective countries and internationally. Given the absence of empirical data regarding the subject (Mason, 2009), a qualitative examination will certainly provide some much needed perspective and open up avenues for further research.

The remainder of this article is structured as follows: Section Two features a review of academic literature around the subject of early stage investment – the universal challenges it entails, the specific issues plaguing Southeast Europe and the theoretical considerations relevant to the subject. Section Three expands on the methodology used in the research process, while Section Four provides the interview results and analysis. Finally, Section Five includes the conclusion drawn from the research, along with three key takeaway messages.

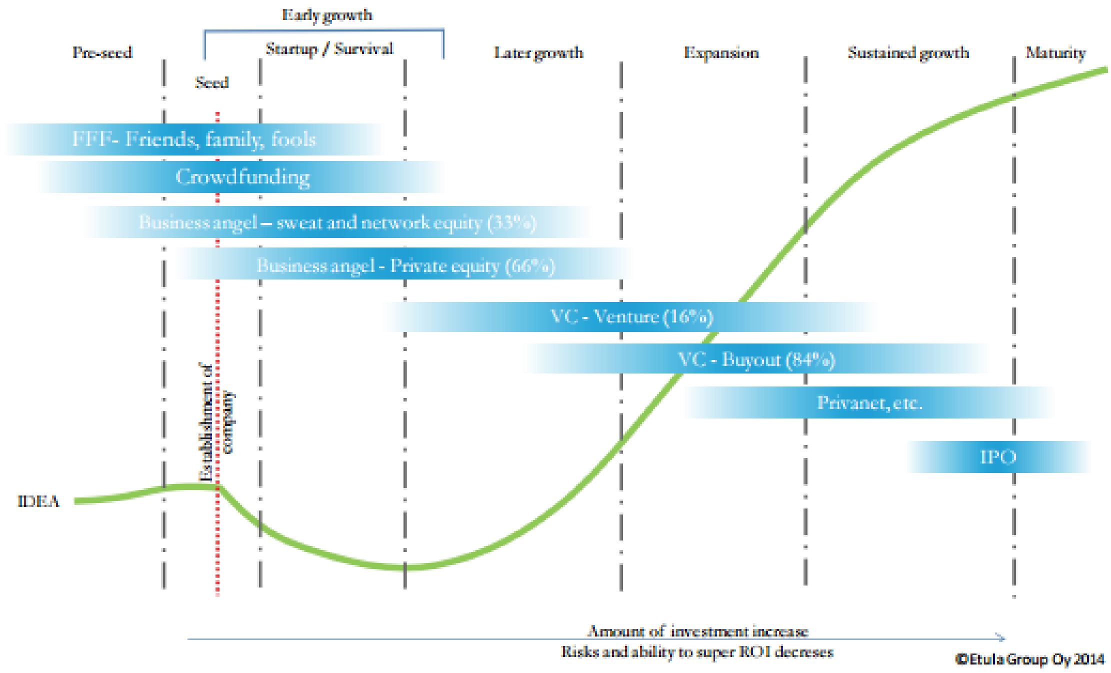
Early stage investment

The academic literature makes it clear that the financing needs of young startups constitute an important consideration for all stakeholders involved in the entrepreneurial ecosystem. While it is possible to finance such ventures with debt from financial institutions, the information asymmetry associated with them often makes equity financing more appealing (Abdulsaleh and Worthington, 2013). Unfortunately, even though obtaining external financing (seed level up to 50K euros; scale-up level 500K to 1 million euros) is so important for young firms, especially at the early stage, its lack of availability is still identified as a major problem that entrepreneurs face (Kelley et al., 2016).

Overview

Early stage equity financing can come from several sources: the founders themselves, their friends and family, angel investors, public funds, business plan competitions, incubators, crowdfunding platforms, corporate ventures, banks, or venture capital firms. While the first two constitute internal funds and are mostly insufficient, the others are what make up external early stage financing and are often instrumental in ensuring that a business succeeds (Mitter and Kraus, 2011). Figure 1 shows the timeline of the startup financing cycle and the points at which different sources of finance play a major role in the company's financial situation.

Figure 1: Investor Options at Various Stages of a Company's Lifecycle



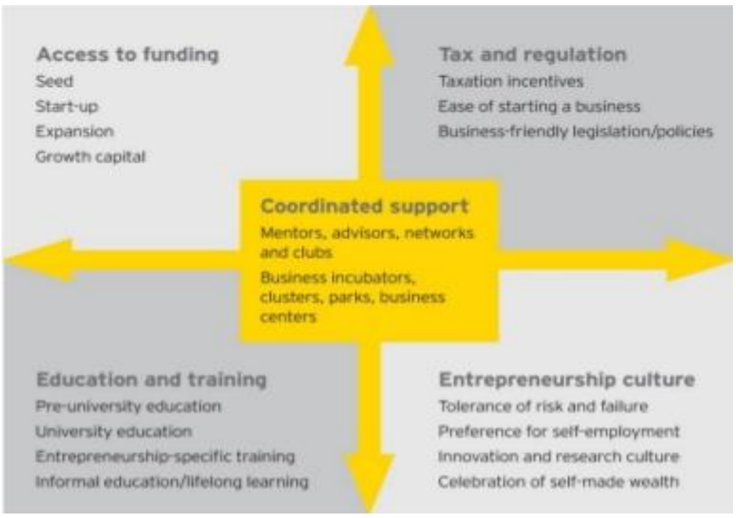
Source: Etula, S. (2015), p. 15

There are two main sides of the funding gap issue, although the severity or the attention paid to each one depends on the country and the inherent specificities of each early stage investment market. The first - supply-side constraints and related interventions - have received more attention in the academic literature (Fraser et al., 2015). These refer to insufficient availability of finance, which is generally believed to be caused by high information asymmetry in early stage investment markets and the resulting hurdles – agency problems and moral hazard (Mason, 2009).

The second side of the disparity between startups seeking funding and investors willing to invest is the demand for investment. Mason and Kwok (2010) posit that, while there are often sufficient funds available from willing investors, the low number of investments that actually go through are due to the fact that entrepreneurs and/or their businesses are often not perceived as appealing investments. Thus, the study maintains that further efforts to aid entrepreneurial finance should involve not only the rounding up of enough funding, but also making sure that the businesses seeking funding are investment-ready. The importance of demand-side gaps and the view that they may be even more important than those on the supply side is a recent development in academic literature (Silver et al., 2010). It emphasizes the importance for capacity building among potential and/or existing entrepreneurs. However, entrepreneur trainings have often been focused on pitching and presentation skills, when they should also include essentials like how to build and run a business (Wilson, 2015). Throughout this research, the discussions around the obstacles to early stage investment

appear to revolve around three (3) academic theories that have been widely used in management research: stakeholder theory, institutional theory and communication theory.
The issue of contrasting needs in the early stage investment industry is closely related to the tenets of stakeholder theory. Investors and entrepreneurs have different requirements which need to be met in order for the investment to take place and it is important that they are met in a way that satisfies all stakeholders (Verstraete and Jouison, 2006). The larger concept of the triple helix warrants mentioning here as well: namely, the interplay between governmental, educational (university and research centers) and industry organizations as those impact the processes of early stage investment. After all, investors and entrepreneurs represent only one helix and the involvement of the other two is what ensures the proper functioning of the entrepreneurial ecosystem (Brundin et al., 2008). Some scholars even add a fourth dimension – society – when discussing the effects different stakeholders can have on how entrepreneurship develops in a country or region. This transforms the triple helix into a quadruple helix (Afonso et al., 2012). Indeed, the development of a strong entrepreneurial base is a complex and multi-faceted process and apart from the education or training received by the entrepreneur, it is also affected by the social, political and legal environment of a given country (Bonini and Alkan, 2012). Cultural characteristics can even affect the perceptions of entrepreneurs as to their skills and opportunities in developing a business (Bosma and Schutjens, 2011). Figure 2 gives an overview of the entrepreneurial development framework, showing how the four helices relate to entrepreneurship. Moreover, all helices are in line with institutional theory in terms of their impact on how entrepreneurs and/or investors behave. It is only by understanding the context that this quadruple helix creates in certain countries or regions that necessary actions can be taken to develop early stage investment practices that are actually effective (Cai, 2015).

Figure 2: Entrepreneurial Development Framework



Source: EY (2013), p.3

Even if cooperation within the quadruple helix is crucial to a successful entrepreneurial ecosystem, any of the measures required to address the issues present in the early stage investment ecosystem require government support or initiative at the outset. Brander et al. (2015) claim that there are many forms that these initiatives could take: while direct support through providing grants or loans serves to enhance the investment environment, co-investment is also very important, as it allows the market to guide the government as to where it should intervene. Such guidance makes it easier to support the early stage investment market and ensures that financial support is given to those startups that have passed the inspection of venture capital funds or other similar entities (Brander et al., 2015). However, Lerner (2010) highlights the importance for the government to support the entire entrepreneurial ecosystem rather than solely providing financial capital. Such support should surely include cooperation with or even creation of intermediary institutions such as business angel networks, venture capital firms and incubators or accelerators, as they help strengthen the ties between the different stakeholders. According to Altuntas (2014), "converting public finance to smart finance…is only possible if a cooperation develops between public investors and angel investors" (p.105).

Communication theory also comes into play when discussing how the stakeholders are supposed to cooperate in pursuit of a common goal. Successful communication in the early stage investment process is instrumental in ensuring that the process is implemented smoothly on a wide scale. This is especially true for the institutions that are part of the triple (or quadruple) helix. As the different entities involved have different agendas and expectations, their actions are too often geared toward accomplishing those specific agendas without considering how to set or pursue common goals. These common goals can only be achieved through cooperation between different sides like policy-makers, educators or intermediaries within the industry. According to Leydesdorff (2012), another difficulty to be taken into account in this process is the fact that different stakeholders also communicate in a different manner.

Thus, the main issues with early stage investment as identified by academic literature are the supply and demand side funding gaps that are contextualized by 4 actors – government, industry, academia and society – and the interrelationships and influences between these. The next section explores how these issues play out in the region of Southeast Europe.

Southeast-Europe

SEE has faced considerable difficulties, both economic and political, in attempting to achieve sustainable development. Radosevic (2009) deems the region to be on the periphery when considering the advances it has made in the technology industry and innovation. The author underscores the diversity encountered in the region as an obstacle to its integration both within the region and within the European Union as a whole, citing insufficient government support for research and development as one of the main issues with SEE integration. This is highlighted not only by the different economic circumstances of the relevant countries, but also by the fact that not all of them have obtained EU membership. Szerb et al. (2013) argue that not only are the SEE countries lagging behind the rest of Europe, but they are also exhibiting less development in the entrepreneurial sector than would be suggested by their current economic situation.

While this sentiment is encountered across many studies, there is not a wealth of academic literature devoted to the region. Additionally, countries included in the SEE region vary across different authors and papers. Several studies that address the subject of early stage investment in Southeast Europe are discussed below.

Pinto (2005) explored the lack of development in access to finance for SMEs in Southeast Europe, both in terms of bank loans and the failure of the venture capital market. The author believed the major reasons for this to be the legal and regulatory environment and the inefficiency of the intermediary institutions in the region as perceived by the startups. A survey conducted by Baresel-Bofinger et al. (2015) on early stage entrepreneurship in SEE (including six (6) countries represented at the group interview for the research at hand) reported general disbelief on behalf of both entrepreneurs and investors that the educational system or government bodies were helpful in supporting entrepreneurship, or that there was any entrepreneurship or investment culture in the countries under investigation.

Dőry (2014) studied the state of early stage financing in SEE (albeit only focusing on two (2) countries of interest– Croatia and Slovenia), finding that the advancement of the early stage investment ecosystem in the countries was based on how developed their universities and research capacities were and how well they were connected to other stakeholders. In countries which performed poorly in terms of early stage investment (including those relevant to this paper) intermediaries were missing or weak, which underscores how important they are to the proper functioning of the ecosystem (Dőry, 2014).

Szerb et al. (2007) report that informal investment rates were lower in Slovenia and Croatia than in more developed European countries. Informal investors in these two (2) countries tended to give out smaller amounts of financing, while intimate knowledge of the startup experience and personal relationships with entrepreneurs were important determinants in their propensity to invest in such ventures, highlighting the lack of trust in the early stage investment system. The authors further argue that more visibility and improvement of the flow of information, together with providing education to the relevant stakeholders was necessary to combat the situation (Szerb et al., 2007).

Comparing the development of several countries from the SEE region (Albania, F.Y.R. of Macedonia, and Serbia and Montenegro) to those from Central and Eastern Europe (CEE), a study by Hashi and Krasniqi (2011) claims that the latter are much more developed in terms of entrepreneurship, due to greater commitment by their governments to implement radical changes in the environment for SMEs, while the SEE was impeded by political difficulties. Both regions still suffer from insufficient access to finance and a lack of tax incentives for early stage investments, but CEE is further ahead than SEE, which emphasizes the need for the latter to follow in the former's footsteps.

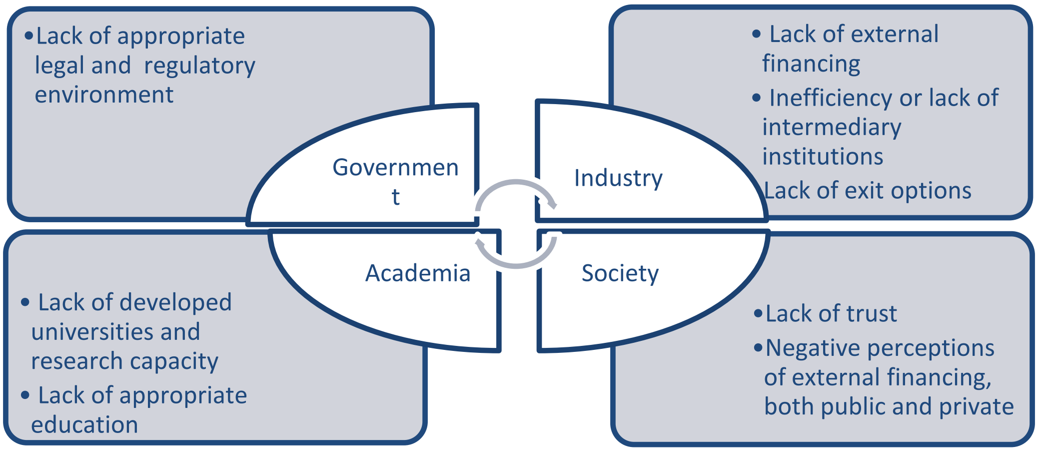
OECD et al. (2016), focusing on F.Y.R. Macedonia, Montenegro, Turkey and Kosovo, underline the importance of SMEs in the Western Balkan and Turkey region, as they represent a major share of the private sector. The report found a trend of adopting EU standards with regards to SME policies and strategies in the above-mentioned countries. However, it also cautioned that there is still a lot to be done to harness the potential of the SME sector in the region. Developing the SME infrastructure, with a comprehensive approach to implementing entrepreneurship policies by governmental bodies is one of the important steps to be taken, along with improving access to finance and entrepreneurial education. The report also emphasizes the need to take the SMEs developed in the region to the international stage, as in today's global economy that is the mark of a truly successful startup. In terms of difficulties to overcome, the diversity of the countries making up the region comes into play again, with different levels of development of SME policies undermining the overall success of the region. Another problem highlighted in the report is that SMEs in some countries face difficulties with obtaining bank financing due to the character of the banking industries in their countries, which increases the importance of developing the private equity side of early stage investment.

Unfortunately, the information available on the countries of interest is not quite as extensive as desirable. Slovenia and Croatia are more widely discussed in the academic literature, presumably because, along with Slovakia, they are included in the CEE region as well as SEE. Other than the OECD report discussed above, there is not much information about the early stage investment process in Kosovo. While some studies do discuss the economic difficulties faced by the country, including the lack of financing, they do not go beyond traditional financial institutions to explore specifically formal and/or informal venture capital (Sen and Kirkpatrick, 2011). Troubles with entrepreneurship are also discussed in said studies, but none of them deal in detail with investment barriers. However, the importance of the external environment and institutional settings in terms of SME growth is emphasized (Krasniqi, 2012). Moving on to Greece, in addition to Baresel-Bofinger et al. (2015), a study by Daskalakis et al. (2013) also highlights the negative perceptions in terms of external financing in the country, showing through a survey that entrepreneurs are not sufficiently aware of funding opportunities, are reluctant to seek external financing, relying instead on internal funds, and have a negative perception of public funding opportunities such as grants.

In a similar study for Turkey, Demirbas et al. (2011) draw attention to lack of education, underdeveloped policies for research and innovation by the government and insufficient availability of external financing as significant barriers to the development of SMEs and entrepreneurship in the country. Despite these obstacles, Turkey represents a special case due to recent initiatives taken to develop early stage investment. The 75% tax reduction for capital invested by business angels in startup companies makes the country an example to be followed in terms of implementing forward-thinking tax policies (Terzi, 2015). A similarly progressive initiative has been the recent introduction of the "Private Market" stock exchange platform in Turkey, which seeks to foster cooperation between investors and entrepreneurs and to provide access to adequate financing for the latter (May and Liu, 2015). While there is still much to be done to create a faultless environment for early stage companies, Turkey has certainly chosen the right direction in its treatment of them. As seen in the OECD report, Turkey is one of the accession-hopeful countries that have most successfully implemented EU policies in the SME area (OECD et al., 2016). Thus, when it comes to early stage investment in Southeast Europe, Turkey is somewhat of an exception to the rule.

The literature shows how the inadequacies characterizing the stakeholders within Southeast Europe contribute to the exacerbation of early stage investment issues. All four (4) sides of the quadruple helix are revealed as major contributors to the state of affairs in the region. While the academic literature by no means delivers a complete picture of the situation in Southeast Europe, it provides several areas to focus the interview questions on – namely, issues with external financing; public awareness and education about the early stage investment process; and the role of the government and intermediary institutions in the eyes of the stakeholders. Figure 3 presents these issues as they relate to the Quadruple Helix concept.

Figure 3: Determinants of Early Stage Investment Issues in Southeast Europe in the Quadruple Helix Contex



Methodology

As the participants of the group interview that is a major source for this paper were from seven (7) countries – Former Yugoslav Republic (F.Y.R) of Macedonia, Slovenia, Croatia, Greece, Montenegro, Turkey, Bulgaria – and Kosovo, the literature review attempts to find studies focused on at least one of them. However, conclusions drawn from a synthesis of information from other countries in conjunction with the countries of focus are also included, as the lines for where the SEE region ends are somewhat blurred and transitory.

Doz (2011) suggests that due to the fact that statistics and data regarding early stage investment are more or less lacking internationally, even more so in Southeast Europe, a qualitative exploratory approach can be used to gather data on a smaller scale, in the absence of more complete information. While qualitative studies make up a small portion of research on small business and entrepreneurship, this approach can help gather in-depth data about the subject matter at hand (Mullen et al., 2009). It should be noted that the use of the structured interview approach, although not very commonly used for group interviews (Bryman, 2016), was necessitated by the circumstances which made this research possible – the gathering of relevant stakeholders from the industry at the World Business Angels Investment Forum, which took place in Istanbul, Turkey on February 22, 2016. The selection of the group interview participants, the time devoted to the interview and all other organizational details were not controlled by the researcher. While the highly qualitative nature of the research is a significant limitation, the prominence of this conference in the world of early stage investment ensured a diverse and supremely qualified group or respondents. Due to the nature of the group interview, there was limited time available and, thus, a limited number of questions. Thus, six (6) questions were formulated reflecting the main issues in early stage investment identified by the literature review and possible solutions to those issues.

Prior research ensured that all questions were relevant to the topic at hand and that the answers would enhance the academic knowledge around the subject of early stage investment. The participants received the list of questions beforehand by email so that they would be prepared as best as possible. The contents of the group interview were conveyed to the lead researcher who then analyzed the results in conjunction with the insight gained from the literature review. All ethics considerations were taken into account during the research process and it was ensured that all researchers involved in the project had a proper understanding of the ethical issues.

The group interview featured ten (10) participants from seven (7) SEE countries and Kosovo, who are involved in one way or another in the early stage investment process in their countries. The interview centered on identifying the issues prevalent in the early stage investment markets of Southeast Europe and discussing the types of actions that should be taken.

Interview results

Even though the literature review identified the focus points for the issues in early stage investment, both generally and in the SEE region specifically, the first question asked what the respondents themselves deemed to be the main issues in early stage investment so as not to constrain the emergence of alternative and potentially important topics, while the rest of the questions dealt with the issues already identified – lack of external financing, lack of public awareness, issues with intermediary institutions and insufficient government support.

Early stage investment issues in the SEE region

When asked what the main issues in early stage investment markets were for their respective countries, the interviewees' answers underlined four (4) distinct problematic areas:

The first issue identified by the respondents concerned the investment culture and attitudes toward entrepreneurship found in their respective countries. The literature emphasized the distrust felt by relevant stakeholders in SEE countries toward obtaining external financing and the risk aversion of potential investors, a pervasive issue affecting and necessitating all other considerations regarding early stage investment. The respondents felt that the current culture and values in the region are not sufficiently supportive of entrepreneurship and early stage investment. Entrepreneurs are still regarded in some SEE countries as "gamblers", and public opinion associates entrepreneurial success with shades of immorality. Similarly, entrepreneurial failure is not easily forgiven and degrades the individual in the eyes of many. Such attitude is detrimental for entrepreneurial activity, in particular at the early stage of development, which by definition is strongly related to iterative failure and learning. In some instances, issue of jealousy toward individual success and wealth are also present in the public.

A lot of emphasis was placed on the lack of a large number of visible successful exits of early stage investments in the markets, which constitutes the second main issue in early stage investment. The problem here is twofold: On the one hand, there is an actual lack of many successful exits in the market due to its relatively young age and the long stretch of time that private equity investors would need to hold on to their investments before obtaining a chance to successfully exit - on average 5 – 10 years (Etula, 2015). On the other hand, there is also a lack of public awareness and/or lack of public promotion of successful exits of early stage investment - i.e. investors successfully making profit from their investments- and, perhaps even more importantly, of the best practices that led them to achieve such successes. The respondents posited that this only serves to exacerbate the unfavorable conditions and distrustfulness of key actors in the early stage investment scene.

Lack of visibility leads to the third issue for the respondents – the absence of data. Many countries outside SEE have implemented more or less serviceable measurement tools. Success rates, investment amounts, number of investors, co-investments - these are all important data to display the development of a country's early stage investment market and serve as an incentive for potential entrepreneurs and investors to enter that market in order to create a venture or undertake an investment. Lack of such measurement tools leads to an absence of (reliable) statistics. Collecting statistics is even harder with business angels' activities, where deals are made behind closed doors and none of the parties have much incentive to disclose details (Mason, 2006). According to the respondents, data collection must start immediately – while the early stage investment market is still developing in the region - and must be as comprehensive as possible. This sentiment was echoed by Mason (2009), who cautioned of the lack of data available on the informal venture capital market throughout the entirety of the EU.

Last but not least, interviewees spoke about the infrastructure of the early stage investment market – as discussed in the literature review, due to the pervasive nature of the issues plaguing the market, there are difficulties with obtaining external finance for entrepreneurs and difficulties with finding suitable investment opportunities for the investors. The facilitation of connections between the actors on the national and regional levels is paramount before the SEE markets can become equal and connected to the global stage. The desired infrastructure should allow for a filtering and propelling effect for entrepreneurial ventures in the early stage of development that enables suitable investors to get connected to the ones with best investment readiness. This draws a parallel to the supply/demand side issues that have been quite important for the early stage investment scene. These issues are further exacerbated by the unfavorable investment culture and other SEE-specific concerns.

The findings above are endorsed by the theories discussed in the literature review: it can be seen how the culture and attitudes in the region affect, in this case – negatively, the early stage investment process. Additionally, the lack of visibility and data essentially excludes a large number of potential stakeholders from becoming involved in early stage investment.

Public awareness

As mentioned above, much of the issues discussed have to do with lack of information exhibited by relevant stakeholders and, more generally, a lack of public awareness about the process and characteristics of early stage investment. Thus, when asked how this problem could be remedied, a few relevant paths emerged from the interview.

According to the respondents, one of the most important steps to be taken is the establishment of a common platform for information exchange. While fragmented pieces of information about early stage investment happenings are available after thorough research, a widely marketed and easily accessible platform where news about conferences, seminars, pitching or educational events could be found would do a great deal. This platform could also include information about deals and other statistics, the absence of which, as discussed above, constitutes a significant problem. Moreover, the respondents also expressed the opinion that such platforms or any other initiatives taken toward supporting the development of early stage investment should be conducted in English, as fragmentation is still a problem across the region. Information available only or partially in a non-international language limits its accessibility, which is restricted enough as it is. The example of Croatia was mentioned, where the common use of English throughout the early stage investment scene is claimed to have been already successfully established to a large extent. These considerations highlight the importance of effective communication in the early stage investment industry and mirror the propositions of communication theory.

Another point that was mentioned was subsidies from international funds – mainly the EU's INTERREG IVC programme, which encourages interregional cooperation in Europe by providing funding for innovation activities among other similar initiatives (INTERREG IVC, 2016). European Union authorities on investment and other financial matters already have a vested interest in making sure that the early stage investment markets in SEE become more developed as it would help the countries' economic situation and would further integrate the region into the EU as a whole. However, internal interest and support from the relevant countries is essential for success.

Intermediary institutions

When asked what changes they thought were necessary to the governmental, educational and industrial intermediary institutions/actors involved in early stage investment in their countries, the respondents expressed a variety of opinions. Creation of a common platform for such intermediary institutions was believed to be important, together with increased communication between the representatives of said intermediaries, which should lead to the creation of a "network of trust". Another sentiment expressed widely was the need for deregulation and simplification. Some participants even went so far as to state that there should be "no innovation with state collaboration". While this stance is in line with some research suggesting that too much state involvement leads to the crowding out of private equity (Da Rin et al., 2006), the most successful government intervention programmes work to aid private actors, not take over for them (Brander et al., 2015). In any case, the fear of too much state involvement should not be a concern in the SEE region, where often the governments have no involvement in the early stage investment whatsoever, neither in terms of funding nor in terms of policy making. There were also opinions expressed as to how the current early stage investment ecosystem could be improved by disposing of disturbances.

Specifically, interviewees called for the modification of smaller funds by pooling them or redirecting them in order to make them more efficient. Along that line of thought an idea was to leverage early stage investment funds with corporate funds set aside for fulfillment of Corporate Social Responsibility in order to achieve a higher impact on the startups that receive them. Such considerations are in line with those of Lerner (2010), who also stated that contributions that are too small do not accomplish much in aiding the entrepreneur or the entrepreneurial ecosystem in making advances.

The benefits of adopting the best practices proven to be successful by institutions already at the forefront of the early stage investment scene were also mentioned. The participants agreed that instead of creating a large quantity of intermediary institutions that accomplished next to nothing, it would be better to focus on a few institutions that actually function efficiently and prove with a good track record that they accomplish their goals, so that those created further down the line can take their lead from them - 'through quality create quantity'.

The role of educational institutions as intermediaries in the startup ecosystem was also brought to attention. Respondents expressed the view that entrepreneurial educational programmes should take a more "applied skills" approach rather than focusing solely on theoretical considerations. However, the outlook put forth by Wilson (2015) that most existing trainings are only focused on pitching and presentation was refuted.

To sum up, intermediary institutions of any kind are extremely important stakeholders in the early stage investment ecosystem, which is corroborated by the fact that their lack of development or inefficiency is considered to be one of the main issues. Again, these findings highlight the importance of stakeholder theory when considering early stage investment.

External financing, government support and future of early stage investment in SEE

Turning to supply side issues – namely – lack of external financing, the interview participants expressed the belief that the lack of appropriate tax incentives is the major reason for this gap – both in terms of investment and divestment for VCs and other early stage capital providers. The absence of tax incentives is also said to affect negatively the willingness of entrepreneurs to launch a startup, which is also supported by academic literature (Hashi and Krasniqi, 2011).

Another problem is the high risk associated with such investments. Certainly, it can be argued that taking such a risk is the very nature of early stage funding which consists of high risk - high reward investments, where only one in ten succeeds and brings returns to the investor (Huang and Pearce, 2015). But this risk of losing the invested money does not necessarily justify the further reaching high liability risk - for example due to strict insolvency laws - that investors face in many SEE countries in the case of a failed startup. Perhaps the issue is in educating the stakeholders in the risks involved so that they can be minimized as much as possible while also creating the understanding that a certain amount of risk is inevitable in such types of investments. Another approach would be to urge governments to reconsider legislation which currently fosters penalizing business failure and, therefore, undermines external early stage investment.

When going deeper into the subject of government involvement, respondents claimed that the governments of SEE states, as they are now, do not currently possess the necessary awareness of how much impact early stage investment has on the economy and how important it is to support it. Their course of action should be adopting best practices from other countries, and, if not willing to actively support early stage investment, then at least not impeding private actors who wish to do so. These sentiments echo the academic literature that suggests that government involvement, while not always sufficiently effective, is important and beneficial for the early stage investment market (Lerner, 2010).

To the question of where they saw the early stage investment market in five (5) years from now in their respective country/in the SEE region, the consensus was that, in order to substantially improve the situation of the early stage investment market, the countries in the region need to learn from the examples of other countries and apply successful practices.

The results of the interview are significant in that they describe real problems that are prevalent in the early stage investment scene in the SEE region as observed by key professionals in the field. While the problems described are specific and of a practical nature, they are in line with the theoretical findings of the literature review. In terms of main issues related to early stage investment, the respondents' answers confirm that unfavorable investment culture, in line with institutional theory, and lack of information are huge problems for the industry, as seen in Cai (2015). They also support the literature in terms of possible actions against the prevailing problems, these being government involvement; ensuring higher availability and flow of information between stakeholders; and developing effective intermediary institutions to support communication between the stakeholders involved in the industry. The results of the interview highlight the issues with different stakeholders and the importance of achieving effective communication between them, confirming the theoretical foundations observed in the literature review with regards to stakeholder and organizational communication theories (Verstraete and Jouison, 2006; Leydesdorff, 2012). They also outline the immediate actions that are necessary for the improvement of early stage investment in the region. These are:

1. Creating a common platform for the free flow of relevant, timely and accurate information, which can be done in cooperation of governmental, educational and industrial intermediaries;
2. Adopting the strategies that are successfully employed worldwide where early stage investment is more developed than in Southeast Europe;
3. Implementing favorable government policies, such as tax incentive schemes, that provide incentives to early stage investment.

Conclusions

This paper attempted to identify main issues in early stage investment present in Southeast Europe and provide some guidelines for steps to be taken to overcome these issues. As entrepreneurship and early stage funding gain increasing importance worldwide, the SEE region has been lagging behind the rest of Europe and the developed world. The first stage of the research included a thorough literature review that examined the academic literature regarding the issues in early stage investment worldwide and in the SEE. General issues were identified as supply and demand inadequacies, the impact of cultural predispositions on entrepreneurship and related financing, and the role that governments and other stakeholders can play in fixing such problems. Three theories were found to have relevance in relation to these issues – institutional theory insofar as it explains the effect culture can have on management or investment decisions; stakeholder theory, which highlights the nuances of the parties involved in the early stage investment process, namely the triple helix of government, educational and industry organizations, along with society; and communication theory which highlights the importance of achieving effective communication between these stakeholders, which can be made difficult by the diversity of their agendas. Issues specific to the SEE region included lack of external financing, insufficient or impeding government involvement, unfavorable investment culture and lack of information/public awareness. The methodology chosen was in the form of a structured group interview, which took place as part of the World Business Angels Investing Forum 2016. The questions asked were derived from the literature review and addressed the issues stated above.

The research methodology was limited in that the main contribution of the research – the interview – was constrained by the format of the World Business Angels Forum, as a part of which it was conducted. The time constraints of the interview allowed for a limited amount of questions and a limited time to answer those questions. The highly qualitative nature of the research is also a limitation and can be modified in future research projects by involving more respondents and forming the questions in such a way that the answers are easily quantifiable (i.e., a close-ended survey). These limitations form the basis for recommendations for further research – which should ensure a larger sample of respondents and a larger array of questions. The present paper is by no means a conclusive answer to the issues of early stage investment in SEE and how they are to be solved. All of the issues identified – be it unfavorable investment culture, lack of external financing, lack of education, or lack of government involvement - could benefit from being explored in terms of their respective determinants and solutions.

While the overall themes present in the early stage investment academic literature, both worldwide and SEE-specific, are present in the respondents' perceptions about the situation in their countries and region, the interview identified specific issues that can only be perceived by them due to their direct involvement in the early stage investment ecosystem. As actors who personally encounter the problems, they are uniquely qualified to comment on them. However, the wider applicability of information retrieved from studies done in the region can also not be ignored.

In the end, synthesizing the information gained from the literature review and the interview participants has led to three main takeaway messages. These reflect both the main issues troubling the early stage investment markets in SEE and the important avenues that are to be pursued to connect them to the global markets. The messages are as follows:

1) The significant discrepancy between early stage investment development in SEE and the rest of the developed world is largely caused by an unfavorable investment culture. Thus, ensuring the availability and free flow of relevant information is necessary;
2) Effective intermediary institutions and best practices need to be developed through the adoption of strategies successfully employed worldwide;
3) Ensuring government support, especially tax incentives and co-financing, will prove crucial in advancing the early stage investment market in SEE.

While it is crucially important to gather information about early stage investment issues and listen to the opinions of experts in the field, true results can only be achieved with proper actions taken by actors within the industry, the educational system and the government. At least partially implementing the modifications suggested above can make a significant positive impact on the process of early stage investment.

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