

## STARTAP LAYİHƏLƏRİNİN İNKİŞAF YOLUNDA MƏRHƏLƏLİ MALİYYƏLƏŞDİRİMƏ MODELLƏRİ

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### Xülasə

Bu məqalə mərhələli maliyyələşdirmə modellərinin startapların inkişafı və böyüməsinə necə dəstək verdiyini araşdırır. Burada ilkin toxum kapitalından başlayaraq sonrakı vençur raundlarına qədər ardıcıl maliyyələşdirmə prosesi və hər mərhələnin startapın əsas inkişaf göstəriciləri və riskləri ilə uyğunluğu təhlil edilir. Tədqiqat keyfiyyət yönümlü və ədəbiyyat əsaslı yanaşmadan istifadə edir, sahibkarlıq maliyyəsi və böyüməsi üzrə mövcud elmi işləri (o cümlədən Kuckertz və b., 2025) ümumiləşdirir. Əsas anlayışlar mərhələli vençur maliyyələşməsi, nəticə əsasında ayrılan transşalar və kapital cəlb etmə strategiyaları təhlil olunur. Mərhələli maliyyələşmə investor riskini azaldır və yüksək potensiallı layihələri zəif olanlardan ayırmaya kömək edir, çünki maliyyə yalnız göstəricilər əldə edildikcə mərhələlərlə ayrıılır. Erkən mərhələdə startaplar çox vaxt şəxsi vəsaitlərə və mələk investorlarına güvenir; biznes modeli təsdiqləndikcə daha iri VC raundlarına çıxış əldə edilir. Hər maliyyə mərhələsi inkişaf hədəflərinə uyğun gəlir məhsulun hazırlanması, bazara çıxış, miqyasın genişləndirilməsi və startap üçün "maliyyə pilləkəni" yaradır. Mərhələli maliyyələşməni anlamaq sahibkarlara kapital cəlb etməni strateji şəkildə planlaşdırmağa, çeviklik və nəzarəti qorumağa kömək edir. Investorlar üçün isə nəticə əsaslı çoxmərhələli maliyyələşmə məqsədlərin uyğunluğunu artırır və uğursuz layihələrə məruz qalma riskini azaldır. Məqalə sahibkarlıq yol xəritəsini maliyyə nəzəriyyəsi ilə birləşdirir və kapital cəlb etmə strategiyalarının startapın həyat dövrü boyunca necə dəyişməsi lazım olduğunu göstərir. Müəlliflər təsisçilər və tədqiqatçılar üçün inkişaf mərhələlərini uyğun maliyyə modelləri ilə əlaqələndirən ineqrə edilmiş baxış təqdim edir.

**Açar sözlər:** Startap maliyyələşməsi; Vençur kapitalı; Mərhələli investisiya; Sahibkarlıq böyüməsi; Mərhələ əsaslı maliyyə; Startap həyat dövrü.

## STAGED FINANCING MODELS IN THE DEVELOPMENT PATH OF STARTUP PROJECTS

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### Abstract.

This article examines how staged financing models support the development and growth of startup ventures. We explore the sequential funding process – from initial seed capital through successive venture rounds – and how each stage of financing aligns with a startup's milestones and risks. Design/methodology: The study adopts a qualitative, literature-based approach, synthesizing current research and insights (including Kuckertz et al. 2025) on entrepreneurial finance and growth. Key concepts

such as venture capital staging, milestone-based tranches, and capital acquisition strategies are analyzed. Findings: Staged financing is found to mitigate investor risk and help sort high-potential projects from weaker ones by funding startups in incremental rounds contingent on performance. Early-stage startups often rely on personal funds and angel investors; as ventures validate their business model and grow, they attract larger VC rounds. Each financing stage corresponds to developmental milestones – e.g. product development, market entry, scale expansion – creating a financing “ladder” aligned with the startup’s progress. Practical implications: Understanding staged financing helps entrepreneurs plan fundraising strategically, maintaining flexibility and control as their venture evolves. For investors, structured multi-stage funding with performance milestones improves goal alignment and reduces exposure to failed projects. Originality/value: This article connects the entrepreneurial journey framework with financing theory, highlighting how capital acquisition strategies must evolve through a startup’s lifecycle. We offer an integrated perspective for founders and scholars on linking startup growth stages with appropriate financing models.

**Keywords:** Startup financing; Venture capital; Staged investment; Entrepreneurial growth; Milestone funding; Startup lifecycle.

## ЭТАПНОЕ ФИНАНСИРОВАНИЕ В РАЗВИТИИ СТАРТАП-ПРОЕКТОВ

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### Резюме

В данной статье рассматривается, как модели этапного (поэтапного) финансирования поддерживают развитие и рост стартапов. Исследуется последовательный процесс привлечения капитала от начального посевного финансирования до последующих венчурных раундов и то, как каждая стадия соотносится с ключевыми вехами и рисками стартапа. Работа основана на качественном подходе и анализе литературы, синтезируя современные исследования и практические выводы (включая Kuckertz и др., 2025) в области предпринимательских финансов и роста. Анализируются ключевые концепции: поэтапное венчурное финансирование, транши, привязанные к достижению целей, и стратегии привлечения капитала. Установлено, что поэтапное финансирование снижает риски инвесторов и позволяет отбирать перспективные проекты, финансируя их постепенно и при достижении показателей эффективности. На ранних стадиях стартапы часто опираются на собственные средства и ангельских инвесторов; по мере подтверждения бизнес-модели они привлекают более крупные венчурные раунды. Каждая стадия финансирования соответствует этапам развития: разработка продукта, выход на рынок, масштабирование формируя «финансовую лестницу», согласованную с прогрессом стартапа. Понимание принципов этапного финансирования помогает предпринимателям стратегически планировать привлечение капитала, сохраняя гибкость и контроль по мере развития компании. Для инвесторов структурированные многоэтапные инвестиции с привязкой к результатам повышают согласованность целей и уменьшают риск неудачных вложений. Статья объединяет концепцию предпринимательского пути с теорией финансирования, показывая, как стратегии привлечения капитала должны эволюционировать на разных стадиях жизненного цикла стартапа. Авторы

предлагают целостный взгляд для основателей и исследователей на связь между стадиями роста стартапа и оптимальными моделями финансирования.

**Ключевые слова:** финансирование стартапов; венчурный капитал; поэтапные инвестиции; рост бизнеса; финансирование по вехам; жизненный цикл стартапа.

## INTRODUCTION

Early-stage startups struggle to secure enough capital to develop products, enter markets, and scale under conditions of high uncertainty. Unlike established firms with steady cash flows, they often operate at a loss and rely on external financing. A defining feature of entrepreneurial finance is staged financing: raising capital in sequential rounds—seed, Series A, Series B—rather than a single lump sum. Each round funds a specific growth phase and is typically contingent on reaching milestones or validating key assumptions. This staged approach has become standard in venture capital due to risk and information asymmetry.

For entrepreneurs, staged financing enforces discipline: founders must achieve measurable progress (e.g., prototyping, user acquisition, early revenue) before seeking the next infusion, limiting early dilution and aligning funding with evolving needs. For investors, it provides control and optionality: capital is committed incrementally, allowing monitoring and the ability to abandon weak projects while doubling down on promising ones. Research shows this approach mitigates moral hazard and adverse selection by tying funding to evidence of success.

This article analyzes how staged financing aligns with startup growth stages. Drawing on entrepreneurial finance literature and practical insights (e.g., Kuckertz et al., 2025), it examines how funding rounds map to the startup life cycle—from ideation and validation to scaling and maturity. The central question is: How do staged financing models support startup development, and what are the implications for founders and investors?

We review theoretical foundations and multi-stage investment research, describe our qualitative synthesis, present an integrated stage-by-stage financing model, and discuss its benefits, challenges, and practical implications for both entrepreneurs and investors.

Research in entrepreneurial finance highlights staged financing as a core venture capital (VC) mechanism. VC contracts typically release funds in rounds, allowing investors to reassess progress before committing more. This approach manages two key problems: uncertainty and information asymmetry. Early studies (Sahlman, 1990; Gompers, 1995) framed staged investment as a *real option* to abandon or continue funding. Later, Wang & Zhou (2004) showed it mitigates moral hazard by constraining risk-taking, while Dahiya & Ray (2012) found it efficiently “sorts” startups—weak performers fail to raise follow-on rounds, concentrating capital on stronger ventures.

Beyond risk control, staging supports goal alignment and monitoring. By linking tranches to milestones (e.g., prototype completion, user growth), investors synchronize founders’ incentives with their own. Achieving milestones triggers further funding, encouraging disciplined execution. Industry analyses describe this tranche approach as fostering “*high accountability and candor*” in VC-founder relationships, while Gompers et al. (2020) show most VCs rank team execution and milestone achievement as top follow-on investment criteria.

The startup life cycle aligns with distinct financing modes:

- Pre-seed: founders bootstrap with personal funds, FFF, and small grants/incubators, aiming to validate the idea and build an MVP.
- Seed: angels and seed funds provide early external capital (often via convertible notes/SAFES), enabling product refinement and product–market fit.
- Series A/B: institutional VCs invest larger priced rounds to scale proven models, with terms like board seats, anti-dilution, and milestone-linked tranches.
- Late stage (C+): growth equity, corporates, and private funds supply major expansion/IPO-prep capital, sometimes mixed with venture debt; risk drops but protective rights persist.
- Exit/self-sustainability: liquidity via IPO/M&A, or transition to revenue funding.

Entrepreneurs face a trade-off between access to capital and dilution/control loss (Cumming, 2008). Staging also creates pressure to hit short-term metrics, sometimes encouraging vanity growth. Pitch dynamics affect outcomes: Kanze et al. (2018) found gendered investor questioning influences funding success. Resilience and planning—managing burn rate, mapping milestones, and preparing alternative funding paths—are key for navigating gaps like the Series A crunch. Kuckertz et al. (2025) emphasize preparedness and storytelling: founders who know their venture deeply and communicate progress credibly gain investor confidence.

This study employs a qualitative, integrative research design to examine staged financing models in startup development. Rather than gathering primary data, we reviewed scholarly and industry literature on venture capital, startup funding rounds, and entrepreneurial growth, contextualizing findings within the entrepreneurial journey framework by Kuckertz et al. (2025).

Our approach followed three steps:

- Literature Collection: We analyzed peer-reviewed journals in finance and entrepreneurship (e.g., *Journal of Business Venturing*, *Journal of Corporate Finance*), seminal entrepreneurial finance works, and credible industry sources such as accelerator guides and VC blogs. Combining academic and practitioner insights ensured theoretical rigor and practical relevance.
- Conceptual Analysis: Using thematic analysis, we identified recurring concepts—risk mitigation, milestone-based tranches, investor control, and life-cycle alignment—and synthesized evidence into a unified model showing how startups' capital strategies evolve from seed to expansion. Claims were cross-checked across multiple studies and examples.
- Integration with Entrepreneurial Journey Framework: We mapped financing events onto the startup development path described by Kuckertz et al. (idea, validation, prototyping, growth), ensuring a holistic view of financing within entrepreneurial evolution.

No human subjects or quantitative data were involved; ethical considerations focused on accurate representation of sources. While this method lacks new statistical evidence, it supports conceptual theory-building and provides a structured framework rather than hypothesis testing.

## Results

Our findings outline a comprehensive stage-based model of startup financing, illustrating how funding sources, investor dynamics, governance mechanisms, and risk exposure evolve as ventures mature. The staged model demonstrates that the financing process is not a linear sequence of capital injections, but rather a cyclical process of validation, learning, and adaptation. Each stage introduces new actors, expectations, and valuation criteria that collectively define the startup's financial trajectory. Based on the synthesis of existing research and practical evidence, five major stages of financing emerge, each characterized by distinct objectives, risk profiles, and capital structures:

1. Ideation & Bootstrapping (Pre-seed) At the ideation and bootstrapping stage, the startup's existence depends almost entirely on the founder's personal commitment and limited internal resources. Entrepreneurs typically rely on bootstrapping strategies—personal savings, friends-and-family funding (FFF), or reinvested early revenues—to build the initial concept or prototype. This phase involves the highest uncertainty, as the market problem, solution feasibility, and business model are yet to be validated. External investors are generally reluctant to participate at this stage due to information asymmetry and the lack of tangible proof of concept. However, founders often benefit from non-dilutive funding sources such as university innovation grants, hackathons, or incubator programs that provide mentoring and small seed capital without equity loss. The primary goal of this stage is to produce a minimum viable product (MVP) or validated prototype capable of demonstrating early customer interest. Psychological resilience and

persistence are critical, as many founders self-finance through personal debt or part-time employment. The success of this stage often determines whether a project can transition to formal investment readiness.

2. Seed Funding & Angels: Once a prototype is validated or early user traction is achieved, startups typically enter the seed funding stage, marking their first exposure to formal investors. Angel investors, micro-VCs, and seed funds dominate this phase, contributing both capital and social capital in the form of mentorship, networks, and strategic advice. Investment vehicles such as convertible notes and SAFE (Simple Agreement for Future Equity) instruments are common, as they allow flexible valuation deferral while incentivizing growth.

Seed funding, which can range from \$50,000 to \$500,000 or more, is primarily used to refine the product, test market fit, and establish an operational team. Angels often invest in small tranches tied to key performance milestones—such as user growth, technical improvements, or early revenues—to manage risk exposure.

At this stage, startups begin developing their brand identity and market narrative, both essential for attracting venture capital (VC) in the next rounds. Importantly, the founder's ability to communicate progress transparently becomes a decisive factor. The outcome of the seed stage defines whether the venture can transition from promise to a scalable business opportunity.

3. Venture Rounds (Series A/B – Early Growth): The Series A and B stages represent the institutionalization of the startup's financing process, characterized by formal governance structures and larger capital commitments. Series A financing, typically ranging from \$2 million to \$10 million, is usually led by professional VC firms seeking scalable business models and measurable growth potential. Investors demand governance rights such as board representation, liquidation preferences, and veto clauses to safeguard their capital and influence strategic decisions. At this stage, startups are expected to demonstrate strong unit economics—including metrics like Monthly Recurring Revenue (MRR), Customer Acquisition Cost (CAC), and Lifetime Value (LTV)—that justify higher valuations. Funding is often released in performance-based tranches, aligning financial inflows with measurable milestones. Series B rounds, often between \$10 million and \$30 million, focus on accelerating market penetration, expanding teams, and optimizing operations for scalability.

Nevertheless, this stage introduces new challenges. Founders face increased dilution and must balance control with investor oversight. Failure to meet projected milestones can lead to a so-called “Series A crunch,” where ventures are unable to secure follow-on funding despite initial traction. Thus, effective investor relations, transparent reporting, and strong leadership are essential to navigate this critical phase of growth.

4. Late Stage (Series C+ – Expansion/Pre-exit): Late-stage financing, encompassing Series C, D, and beyond, signifies a mature phase where startups transition from growth acceleration to market dominance and exit preparation. Funding volumes at this stage are substantial, often reaching tens or even hundreds of millions of dollars, sourced from growth equity firms, corporate investors, sovereign wealth funds, or institutional investors. The strategic purpose of these rounds shifts from survival and experimentation to scaling globally, acquiring competitors, and optimizing profitability in preparation for an IPO (Initial Public Offering) or major M&A (Merger & Acquisition) event. Venture debt and hybrid instruments may complement equity investments, reducing dilution while preserving liquidity. Although risk declines relative to early stages, governance complexity increases, as multiple investor syndicates impose protective provisions to secure returns. Staging may continue informally through milestone-based disbursements or conditional drawdowns tied to expansion targets.

Startups at this phase must balance rapid scaling with operational efficiency, as mismanagement of growth capital can lead to unsustainable burn rates. Strategic leadership, corporate governance, and international market entry strategies become decisive for long-term success. **Exit or Self-Sustainability:** Staged private financing ends at IPO or acquisition, though young public firms may issue follow-on offerings. Some ventures bypass exit, funding growth via internal revenue.

## Discussion

**Benefits:** Staged financing enforces discipline and focus. Founders pursue clear milestones—prototype, traction, revenue—reducing early dilution and validating progress. Each round often adds advisors and networks, strengthening strategic decisions (Kuckertz et al., 2025). For investors, staging limits downside risk, allows price discovery, and aligns incentives; milestone-linked tranches create accountable partnerships (BIP Ventures, 2024).

- **Short-termism:** Pressure to hit next-round metrics may drive unsustainable growth (e.g., vanity user numbers). Transparent founder–investor dialogue can counter this.
- **Dilution & Control:** Successive rounds erode founder equity and influence; late-stage terms may favor new investors. Some founders seek fewer, larger rounds or alternative funding, though options can be limited.
- **Funding Gaps:** Many stall between stages (e.g., “Series A crunch”) due to missed targets or market downturns. Entrepreneurs should manage burn rates, maintain investor options, and plan contingencies.

Pace and structure differ by sector (tech vs biotech) and geography; weak ecosystems may rely on government or corporate capital. Learning from setbacks is vital—failed rounds can refine strategy and pitch (Kuckertz et al., 2025).

In summary, the discussion affirms that staged financing models are a powerful driver of startup development, but they require careful navigation. Entrepreneurs must balance meeting immediate targets with maintaining a vision for sustainable success, and investors must balance rigorous oversight with support. When executed well, staged financing is a win-win: entrepreneurs get the right resources at the right time, and investors maximize returns by funding genuine progress. When mismanaged, however, it can lead to misaligned priorities or the premature demise of ventures that might have succeeded with a different funding approach. The staged model, therefore, is not a one-size-fits-all guarantee of success, but rather a framework within which strategic decision-making by all parties determines outcomes.

## Conclusions and Recommendations

This article examined staged financing models and their role in the development path of startup projects, offering a comprehensive view of how financing unfolds in tandem with entrepreneurial growth. By analyzing each stage – from bootstrapping and seed funding through venture rounds to expansion – we illustrated that staged financing is both a financing mechanism and a strategic roadmap for venture development. Each round of capital is more than just money; it is a milestone event that validates the startup’s progress, introduces new partners in the form of investors, and sets the objectives for the next phase.

Several key conclusions emerge. First, staged financing aligns the provision of capital with the reduction of uncertainty: as a startup matures and proves aspects of its business (technology feasibility, market demand, revenue model), it unlocks larger pools of capital under better terms. This dynamic helps allocate resources efficiently in the high-risk domain of entrepreneurship – promising projects are scaled up, while faltering ones are either redirected or discontinued early, conserving capital for better opportunities.

Second, effective use of staged financing requires entrepreneurs to be adept not only in business execution but also in communication. The ability to demonstrate traction, manage investor relationships, and pitch the venture's story at each stage is critical. Founders who treat investors as key stakeholders – updating them regularly, leveraging their expertise, and building trust – often find smoother paths through successive rounds.

Third, while staged financing brings structure, it also imposes rigorous milestones that can strain a startup. Not every venture will follow the idealized trajectory of seed to Series A to B and beyond. Some may take longer at one stage or require a pivot that resets progress. Therefore, flexibility and resilience, hallmarks of the entrepreneurial mindset emphasized by Kuckertz et al. (2025), are as vital in financing as in product development. Startups should plan for contingencies, such as raising slightly more than needed when possible, to weather unexpected delays or shocks (e.g., an economic downturn causing investors to pull back).

From a theoretical standpoint, staged financing can be interpreted through multiple lenses. According to real options theory, it provides investors with the flexibility to expand, continue, or terminate funding based on observed progress, transforming uncertainty into structured experimentation. Agency theory views it as a governance mechanism that mitigates moral hazard by aligning incentives between investors (principals) and entrepreneurs (agents). Furthermore, under the resource-based view, staged financing enables ventures to progressively convert financial capital into strategic resources—human talent, technological capabilities, and social networks—that strengthen competitive advantage at each growth phase.

In regional and policy terms, the staged financing model is particularly relevant for emerging entrepreneurial ecosystems such as those in Azerbaijan and the wider CIS region. Limited venture capital depth, underdeveloped exit markets, and risk-averse investment cultures constrain traditional VC activity. However, hybrid models—combining government innovation funds, corporate accelerators, and co-investment platforms—offer a practical adaptation of the staged logic. Policymakers can facilitate this process by enhancing institutional capacity, improving investor literacy, and supporting university–startup linkages. Strengthening these foundations can help local ecosystems replicate the benefits of staged financing observed in mature markets.

While this study is qualitative and literature-based, its conceptual framework suggests several directions for future empirical research. Quantitative studies could examine how the timing, size, and structure of staged rounds affect startup survival, innovation outcomes, and valuation growth. Cross-country comparisons between developed and emerging economies could reveal whether institutional factors modify the effectiveness of staged financing. Mixed-method designs that combine statistical data with founder and investor interviews would also help capture the psychological and behavioral dynamics behind funding decisions—particularly how trust, perception of risk, and negotiation power evolve across financing stages. It is also important to acknowledge the limitations of this research. Since the analysis is conceptual and based on secondary sources, it does not empirically validate hypotheses. Nevertheless, its contribution lies in synthesizing diverse perspectives into an integrated model that connects financing logic with entrepreneurial growth dynamics. The article bridges theory and practice, offering actionable insights for both founders—on how to strategically plan fundraising and maintain control—and investors—on how to structure tranche-based funding to balance oversight and support.

Ultimately, staged financing represents more than a capital allocation method; it functions as a learning and governance system embedded within the entrepreneurial process. When implemented effectively, it converts uncertainty into structured experimentation, aligns financial inflows with milestones, and fosters mutual accountability between founders and investors. As global and regional startup ecosystems continue to mature, staged financing will remain a cornerstone of entrepreneurial finance, guiding ventures from fragile beginnings toward sustainable growth. By reinforcing both discipline and adaptability, it ensures

that capital not only fuels innovation but also shapes the evolution of entrepreneurial ecosystems in a sustainable and strategic manner.

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