

# Venture Capital Finance: A Security Design Approach

[Get access >](#)

Rafael Repullo, Javier Suarez

*Review of Finance*, Volume 8, Issue 1, 2004, Pages 75–108,

<https://doi.org/10.1023/B:EUFI.0000022158.96140.f8>

**Published:** 01 March 2004

## Abstract

This paper characterizes the optimal securities for venture capital finance in an environment with multiple investment stages and double-sided moral hazard in the relationship between entrepreneurs and venture capitalists. We show that if the conditions relevant for continuation into later stages are verifiable, the optimal security gives the venture capitalist a constant share in the success return of the project over a predetermined set of continuation states. Otherwise, the parties sign an initial start-up contract that is later renegotiated. In this case, in order to minimize the incentive distortions associated with the burden of early financing stages, the optimal start-up security gives a zero payoff in low profitability states and thereafter an increasing share in the success return of the project.

This content is only available as a PDF.

© Kluwer Academic Publishers

**Subject:** [Capital Structure and Dividend Policy, Security Design](#)

You do not currently have access to this article.

## Sign in

 [Get help with access](#)

### Personal account

- Sign in with email/username & password

### Institutional access



Sign in through your institution

- Get email alerts
- Save searches
- Purchase content
- Activate your purchase/trial code
- Add your ORCID iD

Sign in >

Register



Sign in through your institution



[Sign in with a library card](#)

[Sign in with username/password](#)

[Recommend to your librarian](#)

### **Institutional account management**

[Sign in as administrator](#)

## Purchase

[Subscription prices and ordering for this journal](#)

[Purchasing options for books and journals across Oxford Academic](#)

## Short-term Access

To purchase short-term access, please sign in to your personal account above.

Don't already have a personal account? [Register](#)

Venture Capital Finance: A Security Design Approach<sup>\*</sup> - 24 Hours access

EUR €39.00

GBP £33.00

USD \$43.00

## Rental



This article is also available for rental through DeepDyve.