

# Network Ties, Reputation, and the Financing of New Ventures

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## Abstract

Explaining how entrepreneurs overcome information asymmetry between themselves and potential investors to obtain financing is an important issue for entrepreneurship research. Our premise is that economic explanations for venture finance, which do not consider how social ties influence this process, are undersocialized and incomplete. However, we also argue that organization theoretic arguments, which draw on the concept of social obligation, are oversocialized. Drawing on the organizational theory literature, and in-depth fieldwork with 50 high-technology ventures, we examine the effects of direct and indirect ties between entrepreneurs and 202 seed-stage investors on venture finance decisions. We show that these ties influence the selection of ventures to fund through a process of information transfer.

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