

# Small and Medium Size Enterprise Financing: A Note on Some of the Empirical Implications of a Pecking Order

Robert Watson, Nick Wilson

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## Abstract

Asymmetric information models predict a 'pecking order' which reflects a combination of owner-manager preferences and external capital supply constraints whenever insiders know more about the true value of the firm's prospects than outsiders. The pecking order results in retained earnings being the most preferred source of finance, then debt and finally the issue of new shares to outsiders. Using a sample of 629 UK SMEs over the five-year period from 1990 to 1995 we find evidence consistent with a pecking order in which retained equity is preferred over debt. As expected, the evidence of a pecking order was particularly strong in respect of the closely-held firms in our sample.

## Citing Literature



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