

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

Robert Watson, Nick Wilson

First published: 03 March 2003

<https://doi.org/10.1111/1468-5957.00443>

## 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



[Download PDF](#)

## ABOUT WILEY ONLINE LIBRARY

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)



Manage Preferences

Accept All

Reject Non-Essential

Contact Us  
Training and Support  
DMCA & Reporting Piracy  
Sitemap

#### OPPORTUNITIES

Subscription Agents  
Advertisers & Corporate Partners

#### CONNECT WITH WILEY

The Wiley Network  
Wiley Press Room

Copyright © 1999-2025 John Wiley & Sons, Inc or related companies. All rights reserved, including rights for text and data mining and training of artificial intelligence technologies or similar technologies.

WILEY

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)

Manage Preferences

Accept All

Reject Non-Essential