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Authors: Rodrigo Zeidan, Koresh Galil, Offer Moshe Shapir

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## Do ultimate owners follow the pecking order theory?

Rodrigo Zeidan<sup>a, b, \*</sup>

<sup>a</sup>New York University Shanghai

1555 Century Avenue, Shanghai, 200122, China. E-mail: rodrigo.zeidan@nyu.edu.

<sup>b</sup>Fundação Dom Cabral

Campus RJ - Av. Afrânio de Melo Franco, 290,2<sup>o</sup> andar Leblon - 22430-060, Rio de Janeiro, (RJ), Brazil.

Koresh Galil<sup>c, \*</sup>

<sup>c</sup>Ben-Gurion University of the Negev

P.O. Box 653, Beer-Sheva 8410501, Israel. E-mail: galilk@bgu.ac.il.

Offer Moshe Shapir<sup>d, e, \*, \*\*</sup>

<sup>d</sup>New York University Shanghai

1555 Century Avenue, Shanghai, 200122, China. E-mail: oms1@nyu.edu.

<sup>e</sup>Sapir

Academic

College

Hof Ashkelon 79165, Israel.

\* The authors contributed equally to this work.

\*\* Corresponding author.

### Highlights:

- Direct evidence of pecking-order theory.
- Survey of 159 SMEs in Brazil, answers from ultimate owners.
- Strong preference for retained profits, even over subsidized loans.
- Preference for retained profits invariant to debt-constraints.
- Robustness checks show that the pecking order hold even for firms with no debt.

### Abstract

Previous studies that have tested the pecking order theory have been inconclusive. In this paper, we use unique survey results for private Brazilian firms in order to investigate firms' choice of capital structure. We document that ultimate owners of privately owned firms follow the pecking order theory, even in presence of subsidized loans. We also show that whether a firm is debt constrained or unconstrained does not affect this finding.

**Keywords:** Pecking order; SME; capital structure.

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