

**EFFECT OF SHARE SPLIT ON THE SHAREHOLDER'S  
WEALTH  
A CASE OF THE DAR ES SALAAM STOCK EXCHANGE (DSE)**

**EFFECT OF SHARE SPLIT ON THE SHAREHOLDER'S  
WEALTH  
A CASE OF THE DAR ES SALAAM STOCK EXCHANGE (DSE)**

**By  
Rosemary Luena**

**A Dissertation Submitted in Partial Fulfillment of the Requirements for the  
award of Degree of Master of Science –Accounting and Finance (MSC-A&F) of  
the Mzumbe University**

**2013**

## CERTIFICATION

**We, the undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe University, a dissertation entitled Effect of Share Split on the Shareholders' Wealth; A Case of The Dar Es Salaam Stock Exchange (DSE), in partial fulfillment of the requirements for award of the degree of Masters of Science- Accounting and Finance of the Mzumbe University.**

\_\_\_\_\_  
**Mr. LUSEKELO KASONGWA**  
**Supervisor**

\_\_\_\_\_  
Internal Examiner

Accepted for the Board of .....

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## DECLARATION

I, **ROSEMARY LUENA**, declare that this dissertation is my own original work and that it has not been presented and will not be presented to any other University for a similar or any other degree award.

Signature\_\_\_\_\_

Date\_\_\_\_\_

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## **DEDICATION**

I dedicate this dissertation to my Parents and my family for most of all their love, whom I wish to be inspired by my work into valuing intellectual properties.

## ACRONYMS

ABG	African Barrick Gold Plc
ASE	Amman Stock Exchange
CAR	Cumulative Abnormal Return
CMSA	Capital Market and Securities Authority
DCB	Dar es Salaam Community Bank
DSE	Dar es Salaam Stock Exchange
EABL	East African Breweries Limited
GSE	Germany Stock Exchange
HSE	Hong Kong Stock Exchange
IPO	Initial Public Offer
JHL	Jubilee Holdings Limited
KA	Kenya Airways Limited
KCB	Kenya Commercial Bank Limited
LDMs	Licensed Dealing Members
NMB	National Microfinance Bank
NMG	National Media Group Limited
NYSE	New York Stock Exchange
PAL	Precision Air Services Plc
TATEPA	Tanzania Tea Packers Limited
TBL	Tanzania Breweries Limited
TCC	Tanzania Cigarette Company Limited
TOL	Tanzania Oxygen Limited

## **ABSTRACT**

The study aimed at analysis the effects of share split on the shareholders' wealth; a case of Dar es Salaam Stock Exchange (DSE). In attaining this, four specific objectives were set ascertained; to explore reasons for share split, to determine whether price of split share follow any definite identifiable pattern, to analyze pros and cons pertaining to share split, and to assess the effect of share split on return to shareholders.

The study deployed a case study research design and conducted at the DSE where attained 94 percent response rate as 13 respondents were from DSE Staff, 8 respondents from Licensed Brokers and 96 respondents from Shareholders. Again, purposive and snowball sampling techniques were deployed in getting data from a total sample size of 117 respondents.

As far as research findings is concerned, the study attained fully its specific objectives that revealed reasons for share split as psychological, increasing stock liquidity, withdraw of principal investor and speculative factors. Likewise, pros and cons pertaining to share split found to be price affordability, wider ownership base, fulfilling investors' expectation, strengthening company's image and rival competition. Among the cons included some investors perceive split share as cheap, cost of split, listing requirements and split shares being prone to unwanted investors. Moreover, the study recommended principal investors to think critically before deciding to withdraw their shares as would sometimes affect the general conduct of investing companies, while effectiveness of the Tanzania capital market was suggested as area for future study.

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# **CHAPTER ONE**

## **PROBLEM SETTING**

### **1.1 Introduction**

This chapter seeks to present the background of the study, statement of the research problem, objectives of the study, research questions, and significance of the study, limitations of the study, scope and delimitation of the study together with general organization of the study.

### **1.2 Background of the Research Problem**

According to Mendivola (2004) share split is similar to scrip issues. Under the share split, shareholders are issued with new shares at no cost, but its effect on the balance sheet is different from that of a bonus issue. A split reduces the par value of each share, but increases the number of shares by the same proportion. For example, if the par value of shares is reduced from sh200/=to sh100/=, then the number of shares will be doubled, and each shareholder would receive two shares to replace each one they currently own. Because a split does not increase the share capital, it cannot be taken as a gesture of confidence as a bonus issue can. However, a split can improve the liquidity of very high priced shares. The number of shares can be reduced by a similar exercise, a reverse split or share consolidation (Ramos, 2006). In this regard, a company may decide to declare a stock split because it feels that its share price is too high, which may deter potential investors or make it seem out of line when compared to competitors' stock prices (Angel, 2007).

From time to time, companies would want to change the amount of shares available in their company or the price of their stock. The typical way of doing this involves stock splits and it's very successful in accomplishing the desired objectives. The stock market news has grown very accustomed to this phenomenon and while there is usually some initial excitement over stock split, the end result is generally very smooth. There several reasons for the stock splits and what effect they have on the stock market (Brown and Warner, 2004).

Researchers have attempted to explain the market's positive reaction to stock splits on the basis of valuation effects generated by changes in liquidity and trading costs, the adjustment of price to an optimal trading range, and signaling. The liquidity-improvement hypothesis is based on the proposition that lower-priced stocks draw more investors and generate greater trading volume, thus enhancing marketability and reducing the bid-ask spread. The overall evidence does not appear to support the liquidity improvement hypothesis. Vicorl (2011) finds a widening of the bid-ask spread as percent of price following stock splits.

In Tanzania context, share splits had been taking place over time. For instance, Tol gases Limited (TOL) undergone a 2 to 4 share split in 2002, Tanzania Tea Packers Limited (TATEPA) undergone a 1 to 2 share split in 2004, Tanga Cement Company Limited (SIMBA) performed 2 to 4 share split in 2006 while Kenya Commercial Bank Limited (KCB) undergone a 3 to 5 share split in 2008 and the CRDB Bank Plc undergone a 1 to 2 share split in 2010 (Tanzania CMSA, 2012).

In this accord, various types of stock splits can have different effects on the stock market based on the reasons they are implemented whereas a thorough study of the same would be of paramount. Therefore, this necessitated the study to focus on the effects pertaining to share split on shareholder's wealth at the Dar Es Salaam Stock Exchange (DSE).

### **1.3 Statement of the Research Problem**

Since 1990s Tanzania embarked into various economic reforms including establishment of the capital market and securities authority and the Dar es Salam Stock Exchange aimed at enhancing more Tanzanians increased their capital by investing in financial securities in which individuals and institutions sell securities on the capital markets in order to raise funds.

Investment in financial securities has tremendously grown. For instance, DSE third Quarter Report of September, 2012 depicted that listed companies at the DSE increased from 3 in 1999 to 17 companies in 2012. However, such growth did not

come just like but passed through various transformations including share splits for some companies like TBL in 2008, CRDB Bank Plc in 2010, TOL, TATEPA, SIMBA and KCB just to mention a few.

Given the share split exercises performed to the aforesaid above listed companies over time, it is not yet clear to many Tanzania investors as to why share slip has to be undertaken, what are the salient merits and demerits of the same, and on the other hand, how could share split affect return to shareholders in form of dividend and price of shares held.

Therefore, the aforementioned questions or investors dilemmas in as far share split is concerned in Tanzania environment, triggered the interest of the researcher to carry out an empirical study in order to analyse issues pertaining to share split and its effect on shareholder's wealth. Doing so, would leverage the misconception between understanding of share split among investors and the actual need for the same by listed companies.

## **1.4 Research Objectives**

### **1.4.1 General research objectives**

The broad objective of the study focused on analysis of the effect of share split on the shareholders wealth.

### **1.4.2 Specific Research Objective**

The following were the specific objectives to be attained by the study.

- i. To explore reasons for share split,
- ii. To determine whether price of split share follow any definite identifiable pattern,
- iii. To analyse pros and cons pertaining to share split, and
- iv. To assess the effect of share split on return to shareholders.

## **1.5 Research Questions**

### **1.5.1 General Research Question**

The general research question was what is the effect of share split on shareholder's wealth?

### **1.5.2 Specific Research Questions**

In ascertaining the specific research general research question, the following specific research questions were answered.

- i. What are the reasons for share split?
- ii. Does price of split share follow any definite identifiable pattern?
- iii. What are the merits and demerits for share split? and
- iv. What is the effect of share split on return to shareholder?

## **1.6 Significance of the Study**

The study is significant in the following ways.

### ***Shareholders***

This study provides a foundation work to shareholders such that they know the impact of share split on their investments hence take adequate measures towards protecting the same. Knowing such impact would cement their confidence towards increasing investment in listed companies.

### ***Policy Makers and DSE***

The analytical facts of the study results would be expected to act as bench mark to the policy makers (Capital Market Regulatory Authority) to increase awareness programs towards customer knowledge on various issues pertaining to investment in shares, share split inclusive.

### ***Academics***

Results of the study would add to the bundle of already existing knowledge regarding investment in shares and share split is concerned. Furthermore, the study would be

useful as a basis for literatures of future research as well as source for research topics as prescribed on chapter four of the findings of this report.

### **1.7 Limitations of the Study**

This study like many others faced various limitations including the following.

**Time constraint:** The study was carried out for a short period of time because of the requirement to be able to follow the deadline of the University calendar.

**Financial constraint:** It was anticipated and encountered in one end. Thus, it affected number of respondents involved in data collection process as the study attained a 94 percent response rate. This meant that inadequate funding would hamper the researcher to collect 100 percent of responses from all planned respondents.

**Confidentiality of information:** The study was carried out at the financial market where some information were not disposed of due to various reasons including but not limited to safety.

**Uncooperative attitude of respondents:** Some respondents were reluctant and or sometimes uncooperative to respond due to various reasons including being busy and ignoring.

### **1.8 Delimitations of the Study**

The aforementioned above limitations of the study on part 1.6 were overcome as follows.

**Time constraint:** The researcher distributed questionnaires to respondents and interview appointments in advance so to avoid a last minute dash, hence managed to submit the report within time prescribed in the University calendar.

**Financial constraint:** despite of the fact that the researcher has small budget, control of the same was given high consideration, hence, arranged dual appointments whenever needed to collect questionnaires to go hand in hand with interview, thus reduced cost of going and return. Again, the researcher bought necessary stationeries in bulk at reduced price, hence printing of proposal and report drafts was less costly.

**Confidentiality of information:** In questionnaire distribution the researcher requested Departmental supervisors at the DSE to distribute to their subordinate, therefore, this reduced level of confidentiality thought. Likewise, use of purposive sampling procedure enhanced the researcher face the respondent whom she was sure has required information for the study.

**Uncooperative attitude of respondents:** However, use of supervisors in questionnaire distribution and collection made most of informants respond; hence the study attained significant response rate.

## **1.9 Organization of the Study**

The report is divided into five chapters. Chapter one consists of the background to the study, statement of research problems, research objectives, research questions, significance of the study, limitation and delimitations of the study and Organization of the proposal while chapter two consists of literature review in terms of theoretical, empirical and conceptual framework and chapter three consists of the research methodology including; research strategies, population of the study, area of the study, sampling design and procedures, variables and measurement procedures, methods of data collection, data processing and analysis and chapter four presents findings of the study while chapter five concludes the study and made significant recommendations.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter presents three major parts of the literature review including; theoretical literature review with definition of key terms used in the study together with concepts and theories pertaining to the study. Empirical literature review highlights various studies related to this carried out and in Tanzania as well as conceptual framework in form of a diagram reflecting specific objectives of the study and research findings.

#### **2.2 Theoretical Literature Review**

##### **2.2.1 Definition of Key Terms**

**Shareholder:** is any person, company or institution that at least has one share in a company. A shareholder may also be referred to as a stockholder. Shareholders have the potential to profit if the company does well, but that comes with the potential to lose if the company does poorly (Gordon, 2010).

**Shareholder's wealth:** is defined as the present value of the expected future returns to the owners (that is, shareholders) of the firm. These returns can take the form of periodic dividend payments and/or proceeds from the sale of the stock. In this regard, shareholder wealth is measured by the market value (that is, the price that the stock trades in the marketplace) of the firm's common stock. Every investment decision affects the wealth of those who own the company. This is because the value of an asset is determined by expected future income streams, and investments are undertaken now to generate income in the future (Fama and Jensen, 2009).

**Share Split:** according to Fisher (2006) the number of outstanding shares of a corporation is under the discretion of the board of directors. The board can change the number of shares through various means, one of which is a stock split. When the board declares a stock split, each share is, quite literally, divided or split into multiple

shares. A two for one split, often expressed as 2:1 in the financial media, means that each share is divided into two shares. There is no theoretical limit to how many parts each share can split into. There have been stock split ratios of as high as 10 to one. Following a split, shareholders submit their old shares and are given new, and naturally a larger quantity of, shares by the issuing firm.

### **2.2.2 Concepts and Theories**

The general concept to understand about share split technique is through its branches which are literal stock splits, reverse stock splits and dividend payouts.

**Liquidity Theory:** According to University of Chicago professors Alon and Mathias (2003) the liquidity-related theories suggest that companies announce stock splits to increase trading activity. The basic concept is that a lower stock price brings more investors into the market. For example, an investor with \$1,000 to invest can only buy 10 shares of a \$100 stock, but can buy 100 shares of a \$10 stock. Some companies prefer to keep their stock prices within a lower range to attract more investor interest. Increased trading activity also could lower a stock's bid-ask spread, which is the difference between the buyer's bid price and the seller's ask price.

**Information Theory:** The information-related theories suggest that stock splits provide new information to the market. In other words, company management uses stock splits to convey private information to the market and signal confidence about the company's future prospects. This theory partially explains why share prices often jump following stock split announcements as investors pile in expecting better financial performance ahead. Boehme (2002) found that analysts increase earnings estimates by 2 to 3 percent around stock split announcements, which tends to drive investor demand and stock prices higher.

## **2.3 Reasons Why Companies Split Their Stock**

The most common theories that are used to explain why companies split their stock include the motive to achieve an optimal price range for liquidity, to achieve an optimal tick size and to signal managements' confidence in the future stock price.

The optimal price range theory: Copeland and Weston (2008) came up with the notion that a stock split changed stock prices to a more optimal price, which in turn increased demand for the stock. Their theory of the optimal price range stated that there was a price range within which trading was most liquid for stocks of a company. Firms were found to split their stock to keep prices within an optimal trading range. Boehme (2011) revealed that the main motivation for the executives to split stock was for improved liquidity. High-priced stocks were found to be illiquid due to the psychological reasons and transaction costs. Therefore, when the prices climbed up to a certain level, the executive split the stock to lower prices which facilitated trading, hence they enhanced liquidity.

Conroy and Harris (2009) agreed with the optimal price range hypothesis and noted that when a stock became too expensive, a split brought it back to the optimal price range. Lakonishok and Lev (2002) argued that there existed benchmark values regarding stock prices and managers were guided by these comparative figures. Lakonishok and Lev (2007) also in agreement with this theory noted that the managers' expected stocks trading at lower prices to be generally more liquid and to attract a larger pool of potential investors. Managers were then found to make use of splits to extend their shareholder base, since the lower stock prices were more attractive to minority shareholders.

The signaling theory: A signaling model for stock splits was first proposed by Brennan and Copeland (2008), According to the signaling theory, splits acted as a means of passing information from managers to stockholders. The signaling model of stock splits showed that stock splits served as costly signals of managers' private information because trading costs increased as stock prices decreased. They built up the hypothesis from Fama and Jensen (2002) who suggested that by announcing splits, a company could reduce any information asymmetries that might have existed between stockholders and management.

The stock price reduction resulting from a split then conveyed management's conviction of rising future earnings. Since a stock split usually required a significant

cash outlay, and because sending a false signal would punish the company with an unusually low stock price, a stock split was often seen as a more credible form of information diffusion than road shows or press releases.

Benartzi et al. (2005) argued that management split their stocks only if it considered the current level of stock price and earnings to be permanent. Brennan and Copeland (2008) saw the essence of signaling argument as being that managers only split their stock if they were optimistic that the future share prices would increase, or at the very least not decrease. If a manager believed that the future share prices would decrease, they would not be willing to split stock due to the increased cost of trading lower priced stocks. Miller and Modigliani (2009) noted that managers did not explicitly intend for the split to be a positive signal about future prospects of the firm, but the split could still convey information to the market.

In order to understand better the role of a stock market in an economy, it is important to understand; first, the position of capital markets in the overall financial system and set-up of capital markets; second, the legal framework and third, the “modus operandi” of capital markets. It is universally accepted that no modern economy can flourish without the backing of an efficient financial system because the role of financial system to the economy is like what oil is doing to a motor engine. As oil lubricates the engine and enables it to work more efficiently, the financial system plays the role of intermediation by facilitating movement of funds from the savers (surplus spending units) to users (deficit spending units) and thereby increasing the efficiency of economic resources allocation and deployment (Kessy, 2011).

Admittedly, there is no universally and unequivocally agreed on definition of what a financial system is. However, majority of scholars and practitioners have defined it as a collection of financial markets, financial intermediaries, laws, regulations and techniques through which fixed income securities, equities and other securities are packaged, traded and yields are determined.

Expectations for Apple stock price are now around \$1,000 per share within a couple years. Although most investors, professional and retail, can understand intellectually that a \$1,000 stock earning \$100 per share is mathematically the same as 20 \$50 stocks earning \$5 per share. And investors also understand that a \$50 stock earning \$5 per share and growing at 20% per year is more attractive than a \$50 stock earning \$5 per share but growing at 5% per year. The first Price-to-Earnings ratio in this example is 10.0x with a growth rate of 20% versus a growth rate of 5%, or a PEG of 0.5x versus a PEG of 2.0x. Again investors prefer the theoretical \$50 stock with \$5 earnings at 20% growth, because it is *cheaper*. They “buy” more growth for the same P/E. This is why Apple’s current PEG (FY13, excluding cash) of 0.6x is very attractive, but many investors can’t get over the size of the current price of \$667. By splitting the stock five-to-one, each new share is \$133.40; and it now becomes more psychologically affordable to investors. After all, investors want more than one share of stock for their \$667, even though that \$667 will produce the same total earnings.

Think of Apple’s product strategy in terms of computers and iPods. Both competed in commoditized markets (PCs and MP3 players) where the basis of competition was price. In both cases, Apple’s products remained priced at price-points that were higher than competing brands and Apple still was able to create buzz and desire for their products at higher points. Then, in both cases, Apple brought the products to a larger audience by introducing “lighter” versions, like the white MacBook, or the iPod Shuffle. While the functionality, size, memory were smaller than their MacBookPro or iPod Classic brethren, they opened up the market to more people who coveted the products but couldn’t afford the original price points. By opening up the addressable audience, Apple has become a market leader in MP3 players world wide and has been able to grow its computer business at a pace 7.5 times the industry average. Now, think of Apple’s stock. It remains at a very high price point, and is only attainable to institutional investors, high net worth investors and some retail investors who can get over the previous argument. By splitting the stock 5 to 1, the stock price becomes attainable to a larger audience (Witzt, 2013).

Traditional money managers, like State Street, may be limited in their charter of how much of one stock they can hold. For example, a fund may be limited 3-5% of one stock for diversification. Once they fill their position, they can't buy more; and if the stock appreciates, it would exceed its limited proportion of the fund and the fund managers would have to sell. So, in this world, perversely, a well-chosen investment may have to be sold out of a fund, not because its prospects have diminished but because it has performed too well. This puts an artificial ceiling of how much demand can exist by traditional fund managers for Apple stock and a mechanism by which the stock remains "stuck" in a particular range (Boehme, 2013).

A stock split will make the stock more attractive to retail investors who tend to hold stocks, rather than trade around them. Should Apple split its stock to become more "affordable," it opens up this investor base as well as creates a positive emotional benefit to the stock. Stock splits are associated with growth companies whose earnings are expected to continue to expand. Apple's earnings continue to grow and *accelerate*. For the past three fiscal years, Apple's EPS have grown 34%, 67% and 83%. Current estimates peg Apple's earnings at a 69% growth over last year (Apple, 2013).

Note, Apple's market capitalization is currently \$625B. Previously only oil companies, propelled by oil prices, and Cisco and Microsoft had market capitalizations in excess of \$500B. Interestingly, Cisco and Microsoft achieved their high market caps due to high P/Es. Cisco's P/E increased from 68x in October 1998 to over 200x in April 2000. Microsoft's P/E ranged from 56x to 81x in the same period. On the same basis, Apple's is currently 16x. It has achieved its large market capitalization *in spite* of its P/E.

Stock splits in stocks of companies listed at the Nairobi Stock exchange market have in the recent years gained importance that cannot be underestimated. This has been brought about by the tremendous increase in stock market activity which has resulted in high priced stocks, leading to illiquidity of stock and reduction in the investment momentum of the split shares on the NSE (Gordon, 2010). Stock splits have greatly

contributed to an increase in the affordability of stocks and also led to an increase in the volatility of the split stocks at the NSE. It is not clear whether a share split has a positive or negative impact on share prices and whether it improves the liquidity of shares and market efficiency in general. This study, whose objectives were to find out the effect of stock splits on the market prices and to determine other factors that may influence the prices of stocks, provides information on the effect of stock prices and the policy implications of stock splits.

This study employed the Event Study Methodology to examine the effect of share splits on share prices. This methodology has been used by economists to measure the impact of a specific event on the value of the firm. The usefulness of such a methodology came from the fact that, given rationality in the marketplace, the effect of an event is reflected immediately in security prices. Published data on dividends, stock prices and the stock market indices for companies that split their shares were collected from the Nairobi Stock Exchange. The data was analysed using multiple linear regression to estimate the coefficients of the variables used with particular emphasis on the split action variable. The main findings of the study were that the stock split action had a significant positive effect on the market prices of the stocks. The current cash dividends per share relative to current share price, change in dividends per share relative to current price per share, change in the stock market price index and current stock market price index, were found to be insignificant in determining stock prices. The recommendation to the management of listed companies is that if they intend to increase the number of transactions along with the number of shares traded, which increases the volatility of the price series, they might split in order to achieve this objective and also increase total market value of the common stock at that particular time. This, of course, assumes that they are in a position to split their stock and it ignores any costs associated with a split (Gordon, 2010).

A corporation can also get money for something like a plant expansion in three ways: it can go to the bank and borrow it; it can borrow it by selling bonds; or it can sell part of itself by issuing stock. Bonds and loans are a subject for another day. There

are two kinds of stock: initial issue, and secondary market. In an IPO, the company whose name is on the stock certificate says "for x number of dollars you can buy y percent of this company." It normally isn't a very high percentage per share--calculate the percentage if the company puts 50 percent of itself on the market as an issue of 100,000 shares. Most investors don't get to buy into IPOs--these are largely for institutional and accredited investors. One of the big reasons is brokerages require investors to hold IPO shares for sixty to ninety days, to prevent short-term profit taking (Desai & Jain, 2009).

The secondary market is where the real action is--brokerages buy and sells "used" stocks, and the company whose name is on the certificate never sees any of this money. When you buy a used Ford, Ford doesn't get any of this money and shouldn't; the car doesn't belong to them anymore. Same deal here. Let's buy some Dresser stock and see how this goes. They make Wayne-brand gas pumps, among other things. They compete with Veeder-Root, who makes Gilbarco gas pumps. At the opening bell today, both stocks cost \$25 per share and are stable because a gas pump company really makes its money selling parts--the pumps themselves can last for decades. Today at 11am, Dresser announced a new line of drink cases and entry doors for convenience stores that they will build in a factory they just broke ground on.

Veeder-Root does not announce this. Investors realize this means a person who builds a new convenience store can either call Gilbarco, plus a refrigerated-case company, plus a door company to get all her equipment...or she can call Wayne and get everything she needs from one firm. Investors in Veeder-Root may start selling their stock so they can buy Dresser instead. As they sell, the brokerage will start to get overloaded, so it does what any merchant does and cuts the price to encourage buying. At the same time, the brokerage that has the Dresser stock knows there's not enough of it to go around, so it starts raising the price. This has two effects. First, to a limited extent stock follows a demand curve--the higher the price, the fewer people want to buy it. This also encourages people who bought the stock already, but who

don't necessarily invest long-term, to cash out and realize a profit. Eventually the stock reaches equilibrium (Ramos, 2006).

There's also the stock split. A stock price that's too high is bad, m'kay? Fewer people can afford to buy \$100 stock than to buy \$50 stock, and a small percentage decline on a high priced stock looks worse than the same decline on a lower-priced one. (If you have two stocks--one priced at \$100 and one at \$20--a 5 percent decline on the expensive stock brings it down to \$95 per share, but the same 5 percent decline on the less expensive share is only a dollar.) If a stock is outrageously expensive, the company has the option of doing a "stock split." These will be listed as "3 for 2" or "10 for 1" splits. If your company does a 5 for 1 split and the stock currently trades at \$500, every \$500 share will become five \$100 shares--same market capitalization, but spread out over more shares (Skyf, 2013).

## **2.4 Overview of Financial Markets**

These are defined as a collection of markets that deal with all financial assets, including those which pay-off in short-term, usually less than one year (known as money markets) and those whose tenor/life is of a long-term nature (known as capital markets). Financial markets are therefore comprised of money and capital markets (Sulu, 2010).

### **Capital markets**

Are facilities and mechanisms through which funds move from idle holders to productive users. They are facilities which channel funds, at market price, to productive activities. Capital markets have two inter-dependent segments; primary and secondary markets.

### **Primary markets**

Are financial markets in which new issues of securities are sold to initial buyers for the first time, commonly referred to as Initial Public Offers (IPOs). A good example is when a company floats its shares or sells its corporate bonds to the investing

public for the first time. The securities issued in primary markets are later traded in the secondary markets.

### **Secondary markets**

Are later markets which deal with buying and selling of securities previously issued and subscribed to (in the hands of investors) in primary markets. An example of a secondary market institution is a Stock Exchange, like the DSE which is a market where investors, through their brokers, sell and purchase listed securities. The DSE is therefore one of the Key constituencies of a financial system with unique functions.

#### **2.4.1 Overview of Tanzania Capital Market Regulation**

The legal framework governing the entry into the business, conduct and operations of capital markets in Tanzania is built on a three-tier structure. The Capital Markets and Securities Act, 1994, (Cap.79) (as amended), this is the basic law which regulates the conduct of business in capital markets. The enforcement organ is the Capital Markets and Securities Authority (CMSA). The Tanzania companies act, 2002 (Cap.212), this law regulates a wide range of corporate issues including; the formation of private as well as public companies and all matters relating to issuance of securities, rights of shareholders, prospectuses' contents, obligations of directors and governance issues. The enforcement agency is the Registrar of companies. Regulations and Rules made by CMSA and DSE, the understanding that the Capital Markets are sufficiently complex and the speed of changes within the industry is so fast that the ability of the Parliament to cope with it through statutory enactments is limited; made the Parliament find it prudent to delegate Regulations and Rules making powers on specific issues to CMSA and DSE respectively. So far CMSA has already made more than 14 sets of Regulations to cater for various issues. The DSE has also made several sets of Rules which are found in a book popularly known within the industry as the DSE Blue Print (More details are found in the respective laws, regulations and rules).

However, DSE has the following functions; provides a market for listed securities, it enables those wishing to join or leave the listed companies to do so and those

wishing to leave to do so as well. The DSE therefore provides liquidity by way of providing a continuous market for securities whereby securities are exchanged for cash. Facilitates price discovery, the pricing mechanism ensures that buyers and sellers can do so at a price determined by demand and supply forces. Neither the Exchanges nor brokers determine the prices of the securities traded on Stock Exchanges. Facilitator of transparency; disclosure requirements put in place by the DSE require listed companies to promptly disclose all price sensitive information so that investors may make informed decisions. This is achieved at two levels; first, at the initial offering period when companies have to meet stringent listing requirements relating to offering documents and second through continuous listing obligations (Haruna, 2011).

In this context, the DSE becomes information clearing point between listed companies and investors (information hub). Facilitates privatization and wider ownership of resources, the DSE has facilitated and continue to facilitate the privatizations of the some parastatal organizations which were hitherto under the control of the Government whose shares have been sold by the Government through the DSE. Facilitates raising of capital for enterprises, the DSE facilitates companies to sell new shares/bonds at better prices which lower the cost of capital to such companies and improves their chances of increasing operating profits. Experience has shown that investors accept higher prices for shares and lower interest rates for bonds, when the companies selling these securities are well known and have met stringent listing conditions and reporting requirements as opposed to lesser known enterprises where the investors are faced with a greater amount of uncertainty and as a result they demand lower prices for shares or higher yields as a compensation for this increased risk (CMSA, 2010).

Creation of wealth through investing in listed securities, it has been proved in many occasions that shares offer investors the real return because shares out-perform inflation on average and have done so consistently since share markets came into existence. Shares listed at the DSE have performed very well above the inflation rate when compared with bank deposits. Shares are not passive store of value like banks'

deposits. Bank's deposits do not increase in size during the lock-in period but shares do increase in value over-time. Contributes to the cultural transformation of Tanzanians, at the time the DSE was established, only a handful Tanzanians could claim to be knowledgeable with stock market operations. Operationalization of the DSE has contributed substantially towards public enlightenment which has caused a few Tanzanians to invest in listed companies as a result of this transformation. The public enlightenment exercise is a continuous one and will continue while taking into account past experiences. It is the DSE's goal that Tanzanians appreciate and eventually adopts a thrift culture that thrives an equity ownership in successful business concerns (Venance, 2011).

The first decade of existence of DSE has seen the CMSA directing attention to the promotion of capital markets in the effort to increase domestic resources mobilization, improving the supply of long term capital and encourage the efficient allocation of existing resources. This situation has evolved as result of increased awareness that capital markets can play several key roles in mobilizing resources and allocating the resources in investments thereby stimulating economic growth.

Developing strong and viable capital markets requires a systematic and integrated approach with particular emphasis on the need to develop, strengthen and improve all aspects of the financial sector. Capital markets complement and compete with other markets including commercial banks. Currently bank borrowing is expensive given the level of lending interest rates and the nature of the loans being mostly short term. Capital markets are already unfolding themselves as competitor to commercial banks by giving savers a better opportunity for investment when companies issue corporate bonds. Companies are also able to borrow at a rate substantially less than that obtainable from commercial banks. As already stated, the major function of capital markets is to mobilize resources from savers and channel them to investments. A supportive environment for the development of capital markets is therefore that which on the supply side, promotes accumulation of savings for long term investment (Mshamu, 2010).

According to Yen (2010) stock splits are a puzzling corporate phenomenon. Stock splits<sup>1</sup> occur frequently; less often firms consolidate their outstanding common shares in a reverse stock split. It is widely believed that stock splits are purely cosmetic events because the corporation's cash flows are unaffected, each shareholder retains his proportionate ownership and the claims of other classes of security holders are unaltered. If stock splits were purely cosmetic it would be surprising to find them associated with real effects. Yet, real effects are associated both with the announcement of the split and with its occurrence – splits are associated with statistically significant stock price revaluations and unusual volumes of trade and return variances around the announcement dates and, even more surprisingly, around the execution dates. These effects have been reported in a number of international studies.

These results imply that if managers could increase share prices by splitting their firm's stock, both undervalued and overvalued firms would choose to split their shares, thus eliminating the informational (favorable) content of the decision. However, as the persisting positive market reaction to stock splits indicates, splits must credibly signal such positive company specific information. Since the publication of the classic paper by Fama, Fisher, Jensen and Roll (1969), the signaling hypothesis and the trading range hypothesis have emerged in the finance literature as the leading explanations of stock splits.

The Nordic finance literature contains a rather limited number of studies related to shareholder wealth effects of stock distributions such as stock dividends and stock splits<sup>2</sup>. One of the few studies of stock splits on Nordic data is the Liljeblom (1989) doctoral thesis which is conducted on data for the Stockholm Stock Exchange during the period 1977–85. Therefore, I came to the conclusion that there is a need for a more comprehensive study of Finnish and Swedish stock splits using more recent data. More specifically, for the Finnish markets there is no previous research on the possible announcement or execution effect of stock splits. Similarly, there is no previous research on a possible volatility shift caused by stock splits. Only liquidity effects of stock splits have been studied but with a minimal sample. For the Swedish

markets, the announcement effect of stock splits has been studied but not the execution effect. Also the volatility shift following stock splits has been studied for the Swedish markets but not the liquidity effects of stock splits.

According to the signaling hypothesis, managers declare stock splits to convey favorable information about the current value of the firm. Managers obtain pertinent information about the future because of their expertise in making operating and investment decisions. The signaling theory was first suggested in the seminal paper of Fama, Fisher, Jensen and Roll (1969), hereafter FFJR. They argued that when a stock split is announced, the market interprets this as greatly improving the probability that dividends will be increased. Grinblatt, Masulis and Titman (1984), hereafter GMT, developed the signaling theory by arguing that in the case of "pure splits" the signal actually comprised of two hypotheses which caused the stock price reaction. These were the reputation hypothesis and the attention hypothesis which both focus on penalties of a more indirect and immaterial kind: such as loss of reputation and the awakening of attention by analysts when in fact unfavorable earnings development is expected.

The trading range hypothesis suggests that splits realign per-share prices to a preferred price range<sup>3</sup> and therefore reduce the cost of a round lot, thus making the stock more attractive to retail investors who otherwise could not afford a round lot or were reluctant to purchase an odd lot<sup>4</sup>. On the other hand, wealthy investors and institutions will save brokerage costs if securities are priced high because of the fixed per-share transaction cost component. But if this reluctance may have made sense when odd-lot trades incurred higher transaction costs, it no longer makes sense because the odd-lot differential has been eliminated in more recent times (McNichols & Dravid 1990).

Nevertheless, many investors are still reluctant to trade in odd lots. If investors are constrained to trade in round lots, the large size of a round lot may preclude some investors from considering a stock: even if they could afford it, purchasing a round lot would leave them with a poorly diversified portfolio. Since the need to realign

share prices usually stems from a pre split price run-up, the trading range hypothesis links splits more to past performance than to future. Baker & Phillips (1994) report that managers frequently justify splits on the basis that they improve liquidity and marketability (Ikenberry et al. 1996).

A further version of the optimal trading range hypothesis is the new theory of stock splits suggested by Angel (1997). According to Angel the new theory of stock splits highlights the importance of creating incentives for brokers and dealers to market a firm's stock by focusing on brokerage commissions and the tick as a percentage of stock price. Companies can modify the tick size for their firms, relative to the stock price, by splitting their stock. The tick provides an important role in simplifying the trading process. It reduces negotiating time as well as the potential costly trading mistakes. The tick also protects the time priority of those who place limit orders, and by putting a floor on the quoted bid-ask spread it provides incentives for market makers to provide liquidity. The optimal share price for a firm represents a trade-off between the incentives that a lower price creates for intermediaries through higher commissions and wider spreads and the costs to shareholders imposed by a lower price through higher bid-ask spreads (Angel 1997).

The pioneering paper by FFJR (1969) examined the behavior of cumulative abnormal returns (CARs) surrounding the execution dates of stock splits<sup>7</sup>. Following them, Bar-Yosef & Brown (1977) discovered that the measured excess returns caused by stock splits were in fact due to a temporary increase in the systematic risk (beta coefficient) of the stock. In the following year, however, Charest (1978) documented that some excess returns did remain regardless of how risk was measured. Subsequent literature links stock splits more directly to earnings information. Lakonishok & Lev (1987) and Asquith et al. (1989) document significant earnings increases before and after split announcements. Liljeblom (1989) confirms the presence of stock split announcement effects for stocks traded on the Stockholm Stock Exchange. Doran & Nachtmann (1988) find that analysts' pre-split earnings forecasts underestimate post-split earnings.

Klein & Peterson (1989) find that analysts revise earnings forecasts upward following split announcements. McNichols & Dravid (1990) and Asquith et al. (1989) document a positive relationship between split announcement period abnormal returns and earnings forecast errors. Klein & Peterson (1989) document a positive relationship between split announcement period abnormal returns and analysts' earnings forecast revisions. Foster & Scribner (1991) find announcement effects after controlling for beta non-stationarities. Lamoureux & Poon (1987) argue that split announcement effects are due to the increase in the tax-option value of the split

Brennan & Copeland (1988) assume that managers use stock split announcements to communicate their private information about the firm's prospects to investors. Arbel & Swanson (1993) document that the degree of market anticipation of the split announcement is related directly to the amount of information available about the stock because the magnitude of the announcement effect at the time of the announcement is greater for information-poor stocks than for information-rich stocks.

The ex-date effect of stock splits has been explained by market microstructure anomalies, e.g. by the bid-ask spread and price discreteness. Blume & Stambaugh (1983) show that the bid-ask spread causes an upward bias in rates of return, Gottlieb & Kalay (1985) show that rounding continuous prices to discrete price levels causes an increase in the variance of observed returns. Amihud & Mendelson (1987) and Kaul & Nimalendran (1990) show that measured return variances are also biased upward by the bid-ask spread. Also various other authors have suggested that these and other measurement effects may be responsible for the exdate effect. In a more recent paper, Desai & Jain (1997) studied long-run common stock returns following stock splits and reverse splits. Their results suggest that the market under-reacts to the information conveyed in the stock split and reverse split announcements.

Regarding return variance effects of stock splits Ohlson & Penman (1985) and Dravid (1987) show that stock return volatility increases after stock splits. Klein &

Peterson (1988) find evidence of increased volatility and market inefficiency in call option prices around the announcement and ex-dates of large stock splits in that call options do not reflect underlying stock price volatility increases until the ex-date. Schwartz & Whitcomb (1977) and Gottlieb & Kalay (1985) show that when continuous prices are rounded to discrete price levels, the variance of returns computed using the rounded prices exceeds the variance of unrounded returns. Amihud & Mendelson (1987) and Kaul & Nimalendran (1990) show that the bid-ask spread introduces an upward bias in measured return variances. Dravid (1989) and Conroy et al. (1990) find that bid-ask spreads increase in percentage terms subsequent to splits and impose a liquidity cost on investors: therefore, stock splits act as a valid signal. More recently, Desai et al. (1998) find a significant increase in volatility after stock splits even after controlling for microstructure biases. Furthermore, Koski (1998) finds only some evidence that the bid-ask spread contributes to the volatility increase and also concludes that price discreteness (measurement effects) does not either generate the volatility increase.

## **2.5 Empirical Literature Review**

According to Rashid (2011) Tanzania market companies reacts positively to stock splits, as shown by a general increase in volumes of shares traded around the stock split, there is also an increase in trading activity after the stock split as compared to that before the stock split. This is consistent with the signaling hypothesis, which states that managers of companies split their stock to act as a means of passing information to stock holders and potential investors. Most recently, described that CRDB Bank Plc had its share split to make it more accessible to individual buyers.

The company's shareholders approved a share split that saw four new shares issued for each share. This was aimed at increasing the banks' total number of listed shares rose 33 percent on listing on the Dar es Salaam Stock Exchange after an initial public offering involving the sale of 18.8 billion shillings (\$14.4 million) to over worth of stock. The shares closed at 200 shillings having been offered at 150 shillings. The shareholders also approved the par value of the company shares to be adjusted

proportionately from Sh2 per share to 50 cents. The objective of this split was to increase the shares liquidity in the market (Rashid, 2011).

Again, the pioneering paper by FFJR (2009) examined the behavior of cumulative abnormal returns (CARs) surrounding the execution dates of stock splits<sup>7</sup>. Following them, Blay (2002) discovered that the measured excess returns caused by stock splits were in fact due to a temporary increase in the systematic risk (beta coefficient) of the stock. In the following year, however, Byun and Rozef (2003) documented that some excess returns did remain regardless of how risk was measured. Subsequent literature links stock splits more directly to earnings information.

Lakonishok & Lev (2007) and Asquith et al. (2004) document significant earnings increases before and after split announcements. Liljeblom (2004) confirms the presence of stock split announcement effects for stocks traded on the Stockholm Stock Exchange. Doran & Nachtmann (2003) find that analysts' pre-split earnings forecasts underestimate post-split earnings. Klein & Peterson (2004) find that analysts revise earnings forecasts upward following split announcements.

Mbugua (2004) and Asquith et al. (2004) document a positive relationship between split announcement period abnormal returns and earnings forecast errors. Klein & Peterson (2004) document a positive relationship between split announcement period abnormal returns and analysts' earnings forecast revisions. Foster & Scribner (2006) find announcement effects after controlling for beta non-stationarities. Lamoureux & Poon (2002) argue that split announcement effects are due to the increase in the tax-option value of the split<sup>8</sup>. Brennan & Copeland (2003) assume that managers use stock split announcements to communicate their private information about the firm's prospects to investors.

Arbel & Swanson (2006) document that the degree of market anticipation of the split announcement is related directly to the amount of information available about the stock because the magnitude of the announcement effect at the time of the announcement is greater for information-poor stocks than for information-rich

stocks. The ex-date effect of stock splits has been explained by market microstructure anomalies,

Example: by the bid-ask spread and price discreteness. Blume & Stambaugh (2011) show that the bid-ask spread causes an upward bias in rates of return. Hickman, Hunter and Bryd (2006) showed that rounding continuous prices to discrete price levels causes an increase in the variance of observed returns. Hou and Moskowitz (2005) show that measured return variances are also biased upward by the bid-ask spread. Also various other authors have suggested that these and other measurement effects may be responsible for the exdate effect.

In a more recent paper, Desai & Jain (2008) studied long-run common stock returns following stock splits and reverse splits. Their results suggest that the market under-reacts to the information conveyed in the stock split and reverse split announcements. Regarding return variance effects of stock splits Ohlson& Penman (2007) and Dravid (2006) show that stock return volatility increases after stock splits. Klein & Peterson (2007) find evidence of increased volatility and market inefficiency in call option prices around the announcement and ex-dates of large stock splits in that call options do not reflect underlying stock price volatility increases until the ex-date. Sharpe et al (2011) show that when continuous prices are rounded to discrete price levels, the variance of returns computed using the rounded prices exceeds the variance of unrounded returns.

Again, the relationship between stock splits and stock prices has been the subject of continuing interest to economists and practitioners. The reaction occurring after the announcement, however, has not been fully understood and explained. Naidu (2008), states that theoretically, a stock split is merely a numerical change, which leaves investors no better or worse off than they were before the split. This implies that there must be some benefit, either real or perceived, that results from a firm splitting its stock. The purpose of this research was to determine whether a stock split announcement had an impact on the related stock price with specific reference to companies listed at the Nairobi Stock Exchange. The specific objectives were to determine motivation behind stock splits within the Kenyan market; and to determine

if stock splits have any effect on the share price. Primary and secondary data was used to achieve the research objectives. Primary data was obtained by conducting interviews with key decision makers in companies that had split their stocks and were listed at the Nairobi stock exchange. Secondary data was collected from the database of the Nairobi stock exchange. Analysis was done using Microsoft Excel and SPSS computer programs and output presented using appropriate visual techniques, i.e., tables, graphs and charts. Studies by various scholars like Lyroudi et al (2006) are consistent with findings of this research especially on the trading range hypothesis. Baker & Powell (1993) agree on the reason why stock splits occur. They agree that most splits occur so that shares prices are brought to an optimal range. The study established that most companies undertook stock splits so as to bring the trading range of the share price to an optimum point. This was undertaken so that the majority of investors, both individual and institutional, could have access to the shares of the company. The study further established that other factors such as the split ratio employed, for instance the fact that most companies at the Nairobi stock exchange employed a 10 for 1 ratio could have an effect on the post split share price. On the other hand, White (2010) and Wulff (2011) show that the bid-ask spread introduces an upward bias in measured return variances. Weston and Copeland (2011) find that bid-ask spreads increase in percentage terms subsequent to splits and impose a liquidity cost on investors: therefore, stock splits act as a valid signal. More recently, Ross, Westerfield and Jaffe (2010) find a significant increase in volatility after stock splits even after controlling for microstructure biases. Furthermore, Kewei and Moskowitz (2005) found only some evidence that the bid-ask spread contributes to the volatility increase and also concludes that price discreteness (measurement effects) does not either generate the volatility increase.

Likewise, other studies reported excess returns on the announcement and effective dates of stock splits. Hickman, Hunter and Bryd (2006) found that, in the period from 1967 to 1976, their sample of stocks realized excess returns during the three days surrounding stock split announcements. The findings of Desai and Jain (2008) again pointed in the same direction, revealing that following stock splits, there was an

excess return after a holding period of one year. After a holding period of three years, there was an even higher excess return.

Ikenberry (2010) examined two-for-one stock splits by NYSE (New York Stock Exchange) for the common stock of a corporation to list on the NYSE, for example, it must meet minimum requirements for pretax earnings, net tangible assets, market capitalization and number and distribution of shares publicly and approve the market to qualify it as an exchange and ASE (Amman Stock Exchange) firms from 1975 through to 2005 and obtained similar results. They observed excess returns in the first year after a stock split and better results in the first three years following a split. These gains were preceded by excess returns on the announcement date. The findings of positive excess returns were also found in other markets. In their paper, Wu and Chang (2008) found excess returns on the Hong Kong Stock Exchange. They examined 67 splits in the period from 2002 to 2007, and found the excess returns over the three days surrounding a split announcement amounted to an astounding 18.2%. Similar observations were made in the German Stock Exchange. Wulff (2011) again reported excess returns during the four days following stock split announcements as well as during the four days after the effective date. Ross, Westerfield and Jaffe (2010) reported positive and significant announcement effect for Danish stock splits. They explained this announcement effect was a consequence of an increased payout of the splitting companies.

## **2.6 Research Gap**

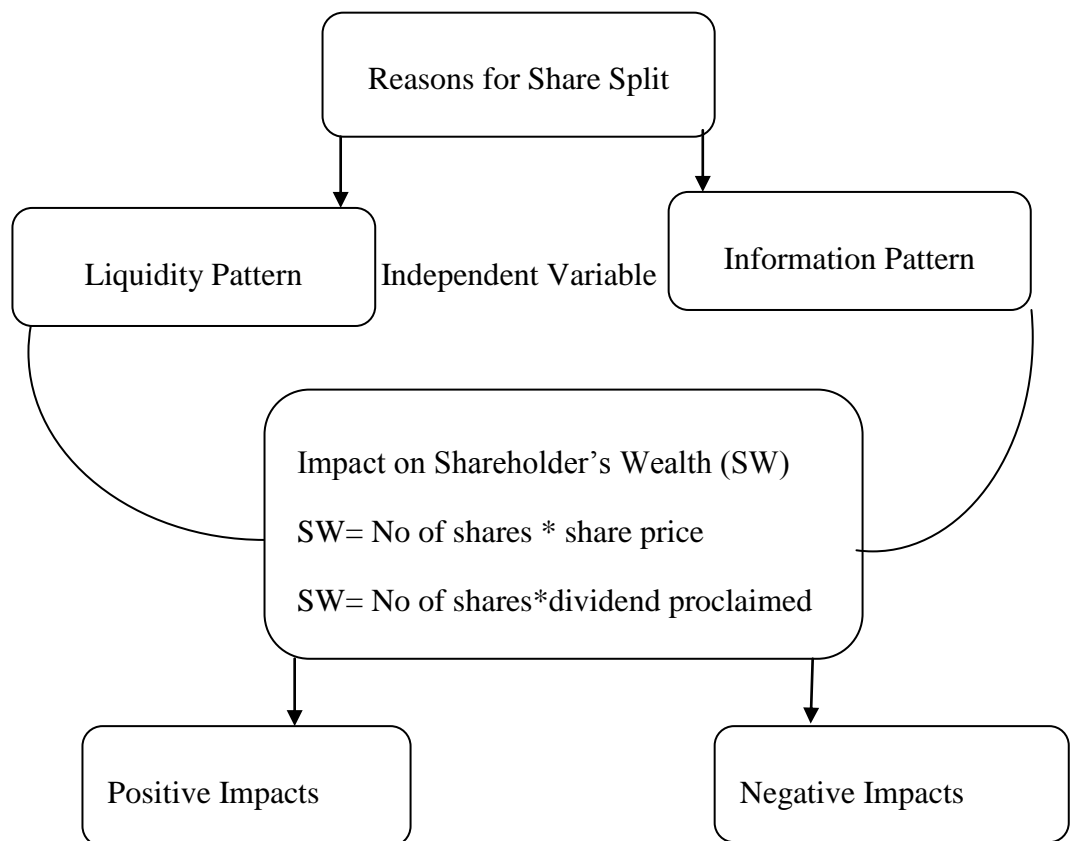
Various studies had been carried out on different angles about shares like that of Rashid (2011) on Tanzania market reaction to stock split, Lakonishok & Lev (2007) and Asquith et al. (2004) on significant earnings increases before and after split announcements, Blume & Stambaugh (2011) on bid-ask spread for share price split and Weston and Copeland (2011) on how share splits impose liquidity cost on investors.

Investment in shares is still a new opportunity for many Tanzanians whereas overall investment knowledge is of paramount for the investor. Various studies had been

carried out on share prices, rational investment in shares and return on share investment. In researcher's information search could not find any study related to share split conducted in Tanzania. Therefore, such missing knowledge posed a research gap through which the study seeks to analyse how price of split share follow any definite identifiable pattern, merits and demerits of share split and effect of share split on return to shareholders.

## 2.7 Conceptual Framework

**Figure 2. 1:** Conceptual Framework



**Source:** Ramos, 2006

According to Ramos (2006) share split would be preempted by liquidity pattern where companies announce stock splits to increase trading activity due to the fact that a lower stock price brings more investors into the market. In this regard, increasing trading activity could lower a stock's bid-ask spread, which is the difference between the buyer's bid price and the seller's ask price. Also, share split

would again be preempted by information pattern where company management uses stock splits to convey private information to the market and signal confidence about the company's future prospects that drive investor demand and stock prices higher. In this regard, being it liquidity or information pattern on the shareholder's wealth would be affected positively or negatively through increase or decrease in prices of shares (stock) and increase or decrease in returns in terms of dividends.

## **2.8 Chapter Summary**

This chapter presented the three major technical parts of literature review which are theoretical literature review comprised of definitions of key terms used in the study and concepts and theories guiding the study. Also, empirical literature review presented comprised of findings of related studies to this one those carried out side Tanzania and the ones carried out in Tanzania. Lastly, the chapter presented conceptual framework as a footprint for research report through linking the theories guiding the study and specific objectives of the study as well.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter presents the research methodology which was employed by the researcher. It provides the research design, sample selection and size, and data collection and administration procedures, data measurement and analysis techniques.

#### **3.2 Research Design**

Research design is a set of advance decisions that make up the master plan specifying the methods and procedures for collecting and analyzing the needed information. In this regard, there are three major types of research design which are exploratory, descriptive and causal. This study deployed a case study research design which is descriptive in nature. The case study design was employed due to the fact that it is less expensive compared to other designs like surveys and experiments. It provides an intensive and integrated investigation of a definitive unit such as work place or department in search for comprehensive information. The study however was empirical in nature, based on mainly primary data collected by the researcher through interview and structured questionnaires.

#### **3.3 The Study Area**

This study was conducted at the Dar es Salaam Stock Exchange (DSE) that was incorporated in 1996 as a company limited by guarantee without a share capital. It became operational in April, 1998. The DSE is a non-profit making body created to facilitate the Government implementation of the reforms and in the future to encourage wider share ownership of privatized and all the companies in Tanzania. The DSE is currently located at the fourth floor, Twiga Building, Samora Avenue, Dar es Salaam.

The securities currently being traded are Ordinary Shares of 17 listed companies, 5 corporate bonds and 8 Government of Tanzania bonds. The DSE membership consists of Licensed Dealing Members (LDMs) and Associate Members. LDMs are

allowed access to the trading floor. Associate members are institutions and companies which support the DSE. However, due to the nature of the study DSE was chosen by the researcher as study area as there is no any other comparable stock exchange in Tanzania.

### 3.4 Population

The population of the study was 386 employees of DSE, 25 licensed Brokers and more than 1,800,000 shareholders in accordance with DSE third quarter report for September, 2012.

### 3.5 Sample Size

The sample size of the study comprised of a total of 117 respondents through which 13 were staff DSE, 8 Licensed Brokers (Managers of respective Brokerage Company) and 96 shareholders from different listed companies (see table 3.1). However, the study attained 94 percent response rate.

**Table 3. 1: Sample Size**

<b>Sample Unit</b>	<b>Planned Sample Size</b>	<b>Actual Sample</b>	<b>Percentage</b>
DSE Staff	15	13	87%
Licensed Brokers	10	8	80%
Shareholders	100	96	96%
<b>Total</b>	<b>125</b>	<b>117</b>	<b>94%</b>

**Source:** Researcher plan, 2013

### 3.6 Sampling Techniques

The purposive and snow ball techniques were applied to select the units of inquiry. The response was thought to be most effective for obtaining sampling units required from targeted sample. In this connection, purposive technique was used to staff from DSE and Brokers due to the fact that they are easily identifiable, therefore, it was easy for the researcher to locate the right person to provide intended information for the study. Subsequently, snow ball technique was applied to shareholders given the

fact that some of them resisted to respond but were able to advise what other customer to see in order to get appropriate information. Therefore, with this technique chain of respondents were built by shareholders themselves-once one was seen referred the other.

In line with the snow ball technique the following shareholders in blanket from listed companies participated in the study; TOL (9), JHL (6), CRDB (27), EABL (13), SIMBA (7), DCB (11), TATEPA (8), KCB (10) and NMB (5).

### **3.7 Data Collection Methods**

The study used two sources of data such as primary and secondary data. Primary sources of data are fresh data obtained by the researcher on the field while secondary sources of data are the data already obtained from other researchers in form of reports, books and any other publications. In collecting data, the study will use the following data collection methods.

#### ***Interview***

The face to face interview was conducted to DSE staff and Brokers given the fact that these kinds of people do not have enough time to concentrate on questionnaire and fill in; therefore, interview was thought an ideal technique for these cadres. Information obtained were recorded and analyzed. Interview technique created and promoted understanding between the interviewer and interviewees. It involved presentation of oral-verbal stimulus and reply in oral verbal responses. These techniques lead to smooth flow of data from respondents to the interviewer.

#### ***Documentary Analysis***

Documentary analysis is a suitable method for collecting data from secondary sources that consists of statistical statements and reports whose data may be used by researchers for their studies for example, articles, books, journals, Census reports, annual reports, share certificates and other useful reports on current statistical statement and rules listed companies published etc. The secondary source consisted

of not only published records but also unpublished records. This was useful for the researcher in understanding various issues related to the study.

### **3.7.1 Instruments for Data Collection**

#### ***Interview Questions***

The study utilized both structured and un-structured interview questions. Structured questions aimed at bounding the respondent to give out answers or information intended by the researcher where as un-structured interview questions were two ways traffic giving both interviewer and interviewee a chance to giving more opinions beyond the question boundaries. In this regard, 17 interview questions were posed to DSE staff and Brokers as shown on appendix I.

#### ***Questionnaires***

Questionnaires consisting of 21 questions of which 9 questions were close –ended and 12 questions were open-ended. Researcher chose this method due to the fact that it is of low cost in administering, free from bias of the interview and respondent has adequate time to give well thought out answers. Structured and unstructured questionnaires were administered- to shareholders of different listed companies in order to get accurate information.

#### ***Documentary Review Guide***

This study was guided by the following documentations; annual reports for listed companies, share certificates prior and after share split, DSE quarterly and annual reports, DSE handbook and the Capital Market and Securities Authority (CMSA) Act. Documentary review guide is aimed at providing an overview of the effect of share split to both listed companies and individual shareholders. Also, information obtained from such documentary review enhanced the researcher to draw an inference on trend analysis for the effect of share split on return to shareholder.

### **3.8 Data Analysis Plan**

Rwegoshora (2006) defines data analysis as ordering of data into constituent parts in order to obtain answers to research questions. Data will be collected and analysed in

a way that enables to answer the research questions to meet the objective of the study. Data analysis was done both qualitatively and quantitatively.

The study used a description of findings to show the relationship between objectives and the result of the study by qualitative analysis involved examining data basing on the attributes shown by the respondents and making discussion with them. In Quantitative analysis the researcher used percentages, tables and frequencies. In this connection, data were analyzed using excel spread sheet package to analyse quantitative data.

## **CHAPTER FOUR**

### **PRESENTATION OF RESEARCH FINDINGS AND ANALYSIS**

#### **4.1 Introduction**

In this chapter the researcher seeks to present and analyse research findings. Moreover, description of findings was expressed through percentages, frequencies and visualized information presented in form of tables and figures extracted from excel spread sheet. Discussion of the findings focuses on responses gathered through interview to key personnel from DSE staff and Licensed Brokers. Likewise, other respondents such as shareholders from various listed companies were gathered through questionnaires.

#### **4.2 Demographic Characteristics of Respondents**

##### **4.2.1 Gender and Age**

Gender and age analysis done in the study revealed that 72 percent of the respondents were males while females comprised of 28 percent. Their age range varied considerably. There were 17 percent males at the age group of 18-27 while females were 4 percent at the same age group. There were 15 percent males at the age group between 28- 37 and females 10 percent. For the age group 38-48 years old, there were 28 percent males whilst females were 6 percent and at the age group 48 years old and above, male were 12 percent and female 8 percent as evidenced on table 4.1. Therefore, more respondents in the study were males than females.

**Table 4. 1: Gender and Age**

<b>Gender</b>	<b>Respondents</b>	<b>Percentage</b>	<b>Age Range</b>	<b>Respondents</b>	<b>Percentages</b>
Male	84	72	18-27	20	17
			28-37	17	15
			38-47	33	28
			48+	14	12
Female	33	28	18-27	5	4
			28- 37	12	10
			38 -47	7	6
			48+	9	8
<b>Total</b>	<b>117</b>	<b>100</b>		<b>117</b>	<b>100</b>

**Source:** Research Data, 2013

Macqui (2012) demonstrated that a good research must consider gender pattern as one of major world crosscutting issues therefore, this study being one of academic research analysed gender and found that male components was bigger than that of females. However, this inferred that in over all share investments number of male involved is greater than females as the same are always cautious in investment patterns.

#### **4.2.2 Work Experience**

Out of 21 DSE Staff and Licensed Brokers who were interviewed 17 percent had been worked in share investment sector less than a year, 56 percent between 2 and 5 years and 27 percent more than 5 years. Again, the study revealed that out of 96 shareholders who responded through questionnaire 23 percent had been investing in share for less than a year, 61 percent between 2 and 5 years and 16 percent had been investing in shares for more than 5 years (Table 4.2).

**Table 4. 2: Duration Dealing with Investment in Shares**

Number of Years	DSE Staff & Licensed Brokers		Shareholders	
	Respondents	Percentage	Respondents	Percentage
Less than 1 year:	4	17	22	23
Between 2 and 5 years:	12	56	59	61
More than 5 years:	5	27	15	16
<b>Total</b>	<b>21</b>	<b>100</b>	<b>96</b>	<b>100</b>

**Source:** Research Data, 2013

Therefore, this demographic evidenced that the study got adequate information from reliable sources and well informed respondents as more than 50 percent had been involved in share investments for more than 2 years.

#### 4.2.2 Level of Education

Table 4.3 shows respondents' level of education as 5 percent had secondary level, 36 percent undergraduate level, 58 percent post graduate and 2 percent other levels.

**Table 4. 3: Level of Education**

Education Level	Respondents	Percentage
Secondary	5	4
Under graduate	42	36
Post graduate	68	58
Others	2	2
<b>Total</b>	<b>117</b>	<b>100</b>

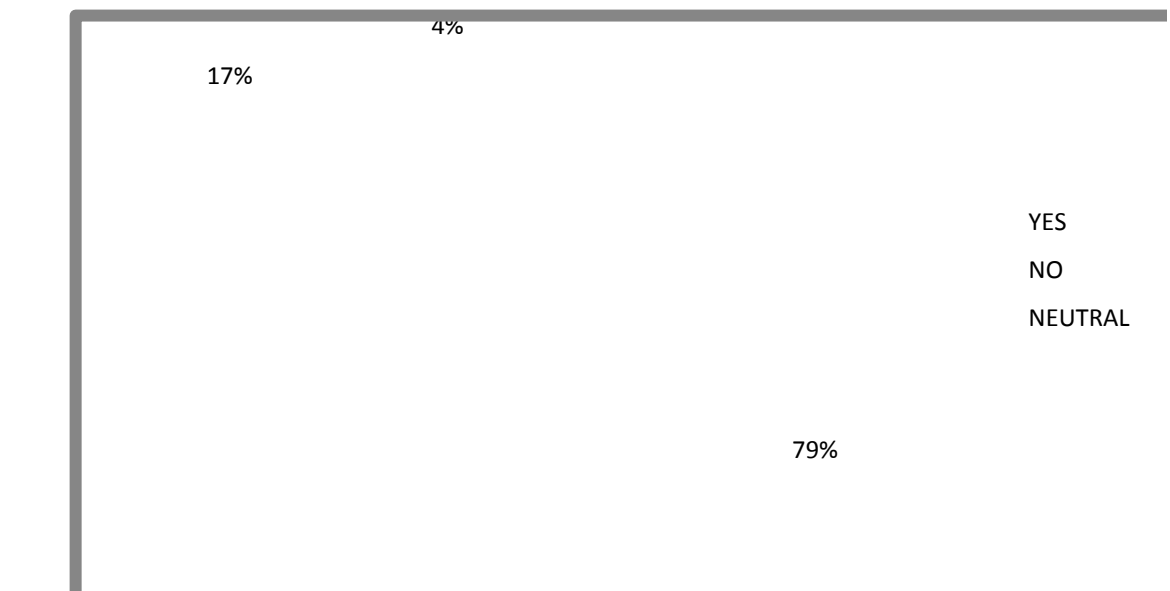
**Source:** Research Data, 2013

Therefore, table 4.3 demonstrated that the study had more than 50 percent well educated respondents where information reliability was guaranteed. However, significance of this data to the study based on the fact that qualitative data obtained through opinions from respondents would to a greater extent be reliable due to critical and logical thinking of respondents pertained to their level of education.

### 4.3 Reasons for Share Split

Prior to exploring reasons for share split the study ascertained knowledge of the same among respondents. In view of this, question 9 of the interview questions to DSE Staff and Licensed Brokers together with question 2 from section B of the questionnaires to Shareholders aimed at assessing whether respondents had heard or had knowledge of share split on appendix I and II.

**Figure 4. 1: Knowledge of Share Split**



KEY

	No. of Respondents
YES	92
NO	20
NEUTRAL	5

Source: Research Data, 2013

In this accord, results on figure 4.1 above revealed that 79 percent of respondents had heard of or had knowledge of share split while 17 percent had no any such knowledge and 4 percent were neutral on the matter.

In accordance with question 12 of the interview questions to DSE Staff and Brokers in appendix I and question 3 in section B of the questionnaires to Shareholders in appendix II, the study aimed at exploring reasons for share split. In this regard, respondents were asked to rank in order of their preferences such reasons as shown on table 4.4. Likewise, results (reasons for share split) were accepted as proposed by more than 50% of respondents.

**Table 4. 4: Factors leading to Share Split**

	Total Respondents	Percentage
<b>Non Answer</b>	<b>9</b>	
<b>Total Respondents</b>	<b>108</b>	
<b>Total Answers</b>	<b>117</b>	
<b>Psychological Reasons</b>	<b>105</b>	<b>97%</b>
<b>Increasing Stock Liquidity</b>	<b>101</b>	<b>94%</b>
<b>Withdraw of Principal Investor</b>	<b>94</b>	<b>87%</b>
<b>Speculative Reasons</b>	<b>87</b>	<b>81%</b>
Mean Base	96	
<b>Mean</b>	<b>87</b>	
<b>Standard Deviations</b>	<b>7.932</b>	
<b>Standard Error</b>	<b>1.083</b>	

**Source:** Research Data, 2013

Results on table 4.4 revealed that 97 percent of respondents ranked psychological reasons as the first reason to why companies split shares. In view of respondents, the study revealed that as the price of a stock gets higher and higher, some investors may feel the price is too high for them to buy, or small investors may feel it is unaffordable. Splitting the stock brings the share price down to a more attractive level. The actual value of the stock doesn't change one bit, but the lower stock price

may affect the way the stock is perceived and therefore entice new investors. Likewise, the study noted further that splitting the stock gives existing shareholders the feeling that they suddenly have more shares than they did before, and whenever prices rises, they have more stock to trade.

Again, 94 percent of respondents ranked increasing stock liquidity as another reason through which listed companies split shares. In view of respondents the study found that splitting share aimed at increasing stock liquidity, which increases with the stock's number of outstanding shares. When stocks get into thousands of Tanzania shillings per share like Tanga Cement Company (TCC) price per share equal to TZS 5,500/= on 18<sup>th</sup> March, 2013 few investors would not be able to afford buying the same, hence reduced stock liquidity. Likewise, by splitting shares a lower bid/ask spread is often achieved, thereby increasing liquidity.

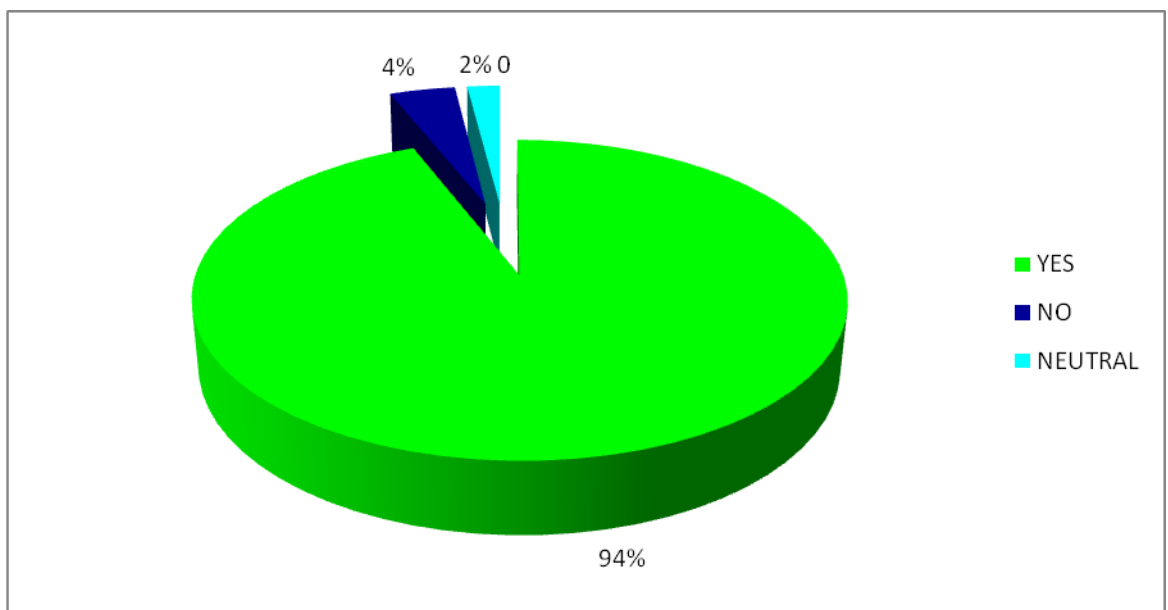
On the other hand 87 percent of respondents ranked withdraw of principal investor as another reason through which listed companies decide to split its shares. In views of respondents the study revealed that principal investor is one holding more than 30 percent of total paid up shares, therefore, whenever he/she withdraws there would be a lot of shares on sale that would adversely affect the prevailing price per share. In addressing and stabilizing prices, the company would resort into splitting shares to gain investors confidence.

Likewise, results on table 4.4 revealed further that 81 percent or respondents ranked speculative reasons as another way through which listed companies decide to split its shares. In respondents' views the study found that investors may be concerned whether they are capable of purchasing shares with a high value, but a greater number of shares at a reduced purchase rate per share, after a stock split makes investors feel comfortable buying the stock. In this way, companies with a higher price may go for a stock split and decrease the rate per share, attracting prospective investors.

#### 4.4 Definite Identifiable Pattern for Price of Split Shares

The study determined whether price of split share follow any definitive identifiable pattern through asking the same to respondents. Figure 4.2 below revealed the fact that 94 percent of respondents said yes prices of split shares do follow a definite identifiable pattern while 4 percent said no and 2 percent of respondents did not say anything.

**Figure 4. 2: Do Price of Split Share Follow any Definite Identifiable Patten?**



#### KEY

	No. of Respondents
YES	109
NO	5
NEUTRAL	3

Source: Research Data, 2013

In regard to question 14 of the interview questions to DSE Staff and Licensed Brokers and question 13 of the questionnaires posed to shareholders that aimed at determining whether price of split share follow any definitive identifiable pattern, the study through results on figure 4.2 revealed that 94 percent said yes and in this

connection the definitive identifiable patterns ranked by respondents in order of their preferences were as enumerated on table 4.5.

**Table 4. 5: Definitive Identifiable Pattern of Split Share**

	Total Respondents	Percentage
Non Answer	7	
Total Respondents	110	
Total Answers	117	
Corporate Decision	103	94%
Economic Factors	94	85%
Regulatory Guide	86	78%
Circumstantial Factors	74	67%
Mean Base	96	
Mean	74	
Standard Deviations	12.312	
Standard Error	1.102	

**Source:** Research Data, 2013

Results on table 4.5 showed that 94 percent of respondents ranked corporate decision as the first definitive pattern through which prices of split shares follow. In this accord, respondents were of views that normally share split is the corporate action and in so doing the same would follow prices recommended by the corporate body.

Likewise, the study revealed again that 85 percent of respondents pointed out economic factors as another pattern for price of split share followed. In views of respondents the study found that economic factors included demand for shares and ability of investors to pay for a share. In this accord, prices for split share would systematically be determined by the purchasing power of investors.

Moreover, 78 percent of respondents ranked regulatory guide as another definitive identifiable pattern through which prices of split shares are pegged. In this connection, the study through secondary data obtained revealed that regulatory guide

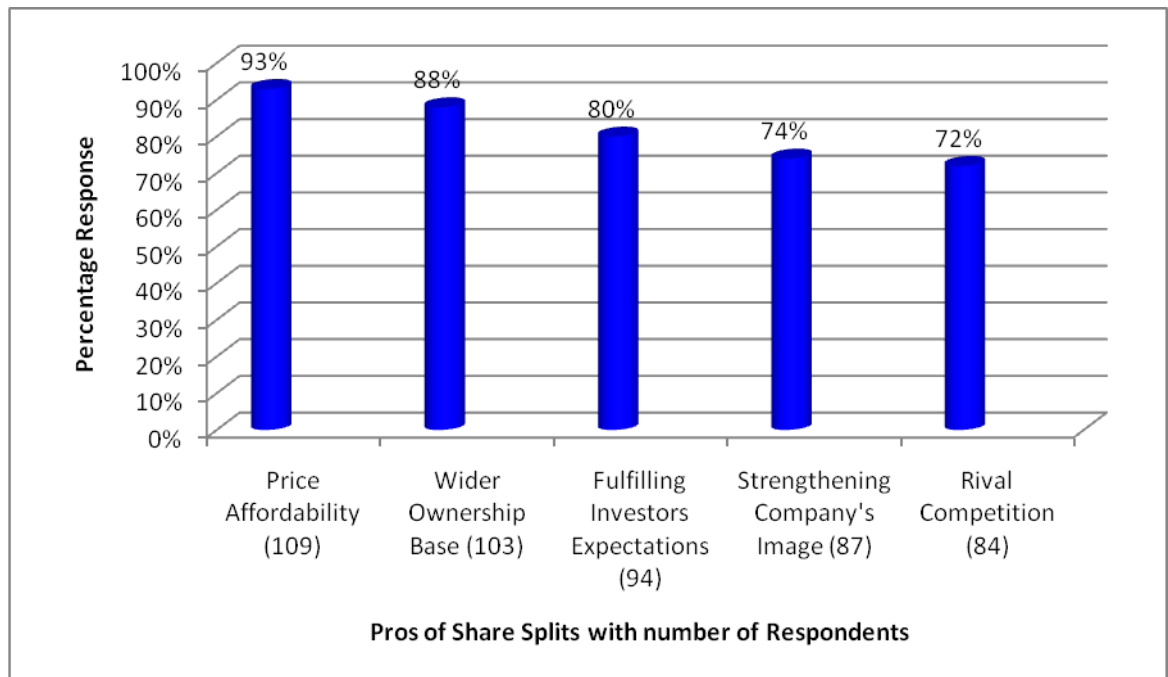
like article 57 of the Tanzania Capital Market and Securities Act 1994 as amended in 2010 prohibits price level of split shares to be below the primary offer price. Therefore, whenever arranging prices for split share must likely be at least above such primary offer price.

Again, results on table 4.5 showed further that 67 percent of respondent ranked circumstantial factors as another definitive identifiable pattern followed when arranging prices of split shares. Question 13 of the interview questions to DSE staff and Licensed Brokers and question 14 of the questionnaires to shareholders were all open ended, in this accord respondents gave out more views on this pattern. Among other views, market conditions, sudden withdraw of principal investor mostly those who are dividend driven would amount to setting prices affordable to current investors. Other circumstantial factors the study found included the level of price suggested or would likely be afforded by majority potential investors.

#### **4.5 Merits and Demerits of Share Split**

The study also analysed merits and demerits pertaining to share split on both sides of the splitting company and share holders. In this connection, results of the findings revealed the followings.

**Figure 4. 3: Advantages of Share Split**



Source: Research Data, 2013

According to results on figure 4.3 above, the study found that one of advantages of share split is price affordability for each share of the stock as would be have half the value it did before, also as suggested by 93 percent of respondents. For instance, someone who would not buy a stock share that costs Tshs. 5,500 might buy a stock share that costs Tshs. 2750. And so on. So the universe of potential buyers of a share of stock may increase if the price of each share is lowered through a stock split. Again, 88 percent of respondents pointed out that more shares would be available so one could have a wider ownership base. In respondents' views, the study learned that as more stock has been split, the larger the quantity of individual shares that exist. This potentially allows a wider number of people to own the shares. This has second order consequences, such as the more people who own stock, the more a company can potentially be protected from government regulations.

Moreover, figure 4.3 depicted that 80 percent of respondents pointed out fulfilling investors' expectations as another advantage of share split. In respondents' views, the study found that investor expectations of price ranges, investors would often be

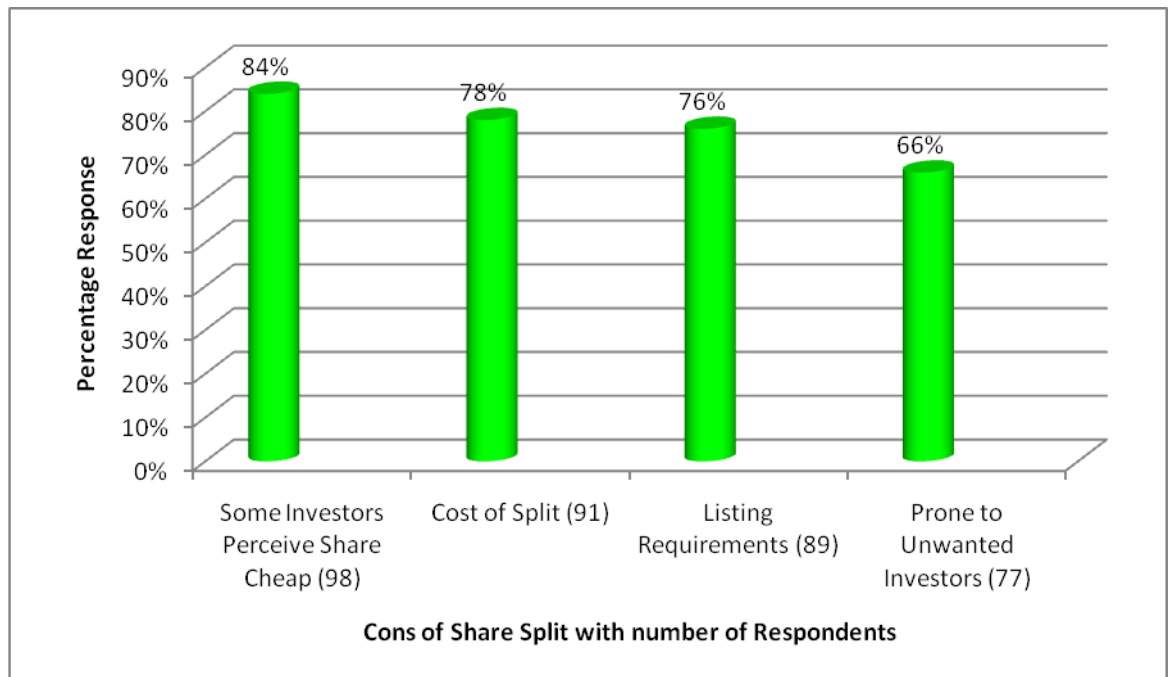
puzzled by the cost of each share of a stock that hasn't been split, because the significant majority of companies do split their shares if their value goes beyond investors' purchasing power, therefore, splitting its stock a company could avoid this confusion. For instance price per share for the African Barrick Gold Plc (ABG) had hiked to Tshs. 13,160 that consequently reduced number of new investors, and would not be surprisingly whenever called for share split.

Nonetheless, 74 percent of respondents pointed out another advantage of share split as strengthening the company's image. In this the study revealed that certain investors prefer stocks that keep splitting, since very successful companies (TBL, CRDB and TCC, etc) generally keep splitting their stock every few years during their rapid growth phase, there is an aura of vitality around a company that needs to keep splitting its stock to keep it in the Tshs. 250 to Tshs. 5,000 range per share. Some investors incorrectly conclude that the frequency of stock splits speaks to a company's future prospects; hence the companies splitting its shares would be taking advantage of the same.

However, results on figure 4.3 revealed further that 72 percent of respondents pointed out rivalling competition as other pros for share split. In views of respondents the study found that splitting the share by the company itself would helps avoid having other companies split your stock for you, if a company chooses not to split its stock, strength of other companies could create a business whereby they sell shares of their entity that owns shares of the stock that won't split.

Unlike the advantages of share split as enumerated on figure 4.3, the study also revealed that share split has its own disadvantages as elaborated on figure 4.4 below.

**Figure 4. 4:** Demerits of Share Split



**Source:** Research Data, 2013

Results on figure 4.4 depicted that 84 percent of respondents ranked that some investors would perceive split share as cheap. In views of secondary data obtained, the study found that investors treat shares as more sellable on a whim if each share costs Less. In this regard, when potential investors consider investing in shares would go for the company with optimum prices as the matter of betting that prices would go up or otherwise, while the lowest prices would rather not attract some category of investors.

On the hand, 78 percent of respondents pointed out costs of the split itself as another cons for share split. The study went further revealing that there are legal and notification costs to doing the split, since a company must make the appropriate Board of Directors resolution and then notify shareholders, exchanges, regulators, etc. It seems strange to spend the company's money on a stock split that has no real significant effect on improving the value of the company.

Moreover, 76 percent of respondents pointed out listing requirements as another cons for share split, through this, the study found that to be listed on a stock exchange stocks generally must maintain a certain minimum price per share. If a company splits its stock and then the value of the company itself falls, the shares may fall below this requirement and be delisted from the exchange. However, some companies that fall into this situation execute a reverse stock split in order to stay exchange listed.

Nonetheless, results on figure 4.4 depicted further that 66 percent of respondents pointed out another cons of share split as prone to unwanted investors. This was also learned that a stock split would attract a certain type of investors a Company does not want if at all the holders of a company's stock and/or the prospective buyers attracted to it are prone to make irrational or emotion-based decisions, some pretty silly stock prices are going to appear periodically. Manic-depressive personalities produce manic-depressive valuations. Such aberrations may help in buying and selling the stocks of other companies.

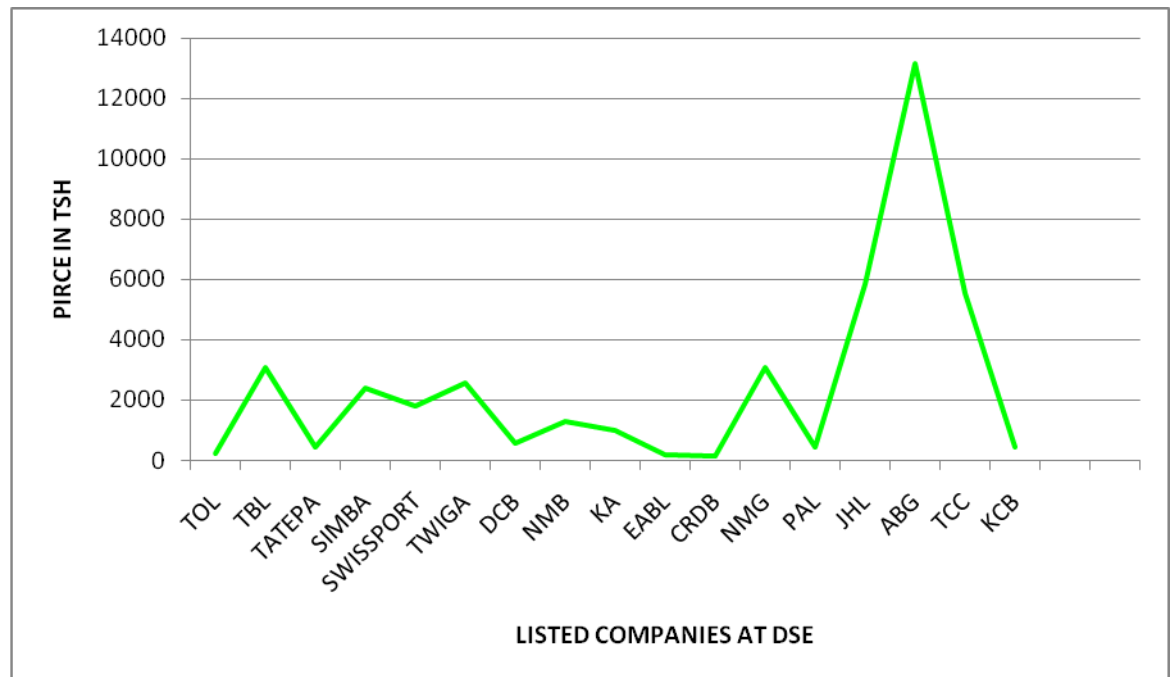
#### **4.6 Effects of Share Split on Return to Shareholders**

Prior analysing effects of share split on return to shareholders the study explored average range of price per share for companies listed at the DSE for the period of one year March, 2012 through March, 2013. In this regard, the companies included TOL Gasses Limited (TOL), Tanzania Breweries Limited (TBL), Tanzania Tea Packers Limited (TATEPA), Tanga Cement Company Limited (SIMBA), Swissport Tanzania Limited (SWISSPORT), Dar es Salaam Community Bank (DCB), National Microfinance Bank Plc (NMB), Kenya Airways Limited (KA), East African Breweries Limited (EABL), CRDB Bank Plc (CRDB), National Media Group Limited (NMG), Precision Air Services Plc (PAL), Jubilee Holdings Limited (JHL), African Barrick Gold Plc (ABG), Tanzania Cigarette Company Limited (TCC) and Kenya Commercial Bank Limited (KCB).

Results on figure 4.5 depicted that CRDB had the lowest average price per share of Tshs. 160 than other listed companies. Likewise, African Barrick Gold Plc (ABG)

was found to have the highest average price per share of Tshs. 13,160 compared to other listed companies. Moreover, the study found further that 9 out of 17 listed companies (52.9%) had undergone share split over their life time.

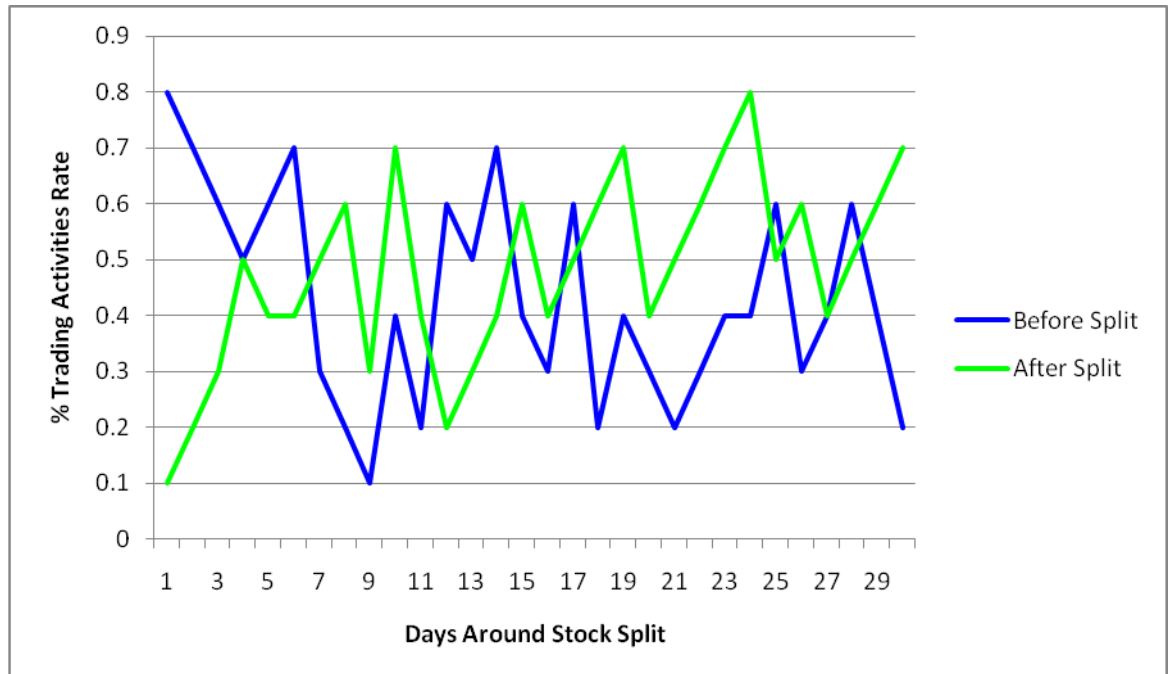
**Figure 4. 5: Price Range for Shares of Listed Companies at DSE**



Source: Research Data, 2013

The study went further analysing listed companies that were adversely affected by share split through which secondary data obtained revealed that CRDB Bank Plc was amongst those companies, others included; TATEPA, PAL and JHL. In this regard, percentage volume of share trading activities for the CRDB Bank Plc in 30 days before and after share split happened in July, 2010 was analysed to determine market reaction as shown on figure 4.6 below. Likewise, this analysis on CRDB Bank Plc was performed given the fact that it was the recent share split occurred at DSE.

**Figure 4. 6: Percentage Trading Activities Ratio against Days around Stock Split for CRDB**



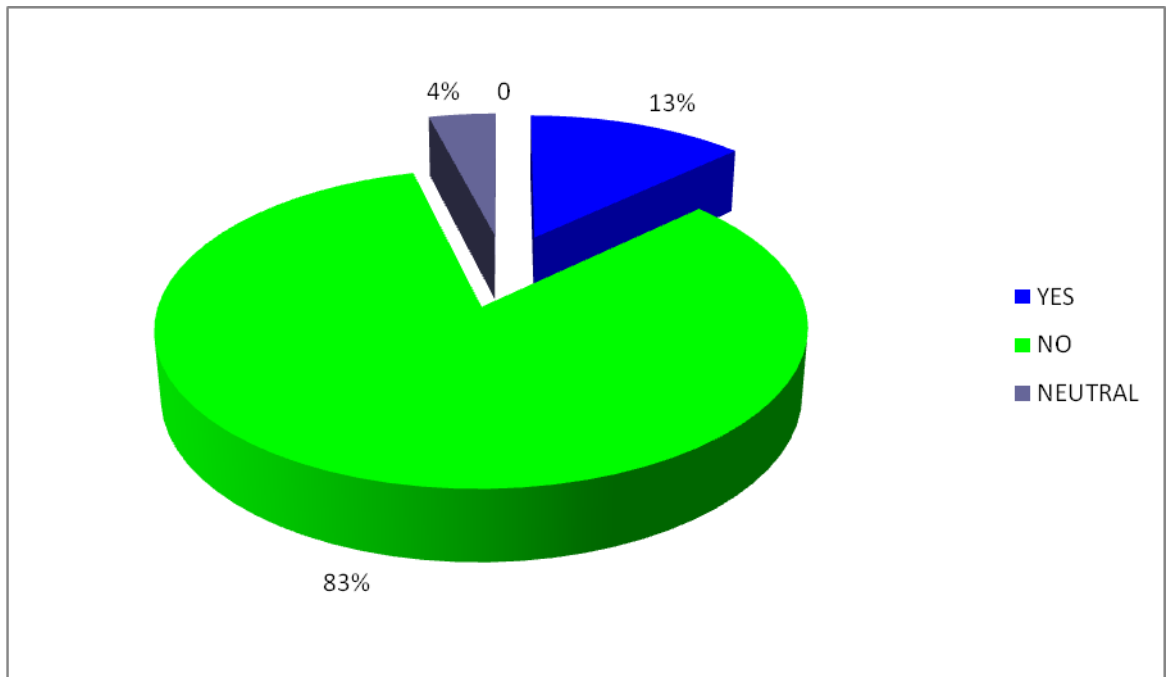
Source: Research Data, 2013

From the results presented on the volumes of shares traded and the number of shares tradable thirty days before and thirty days after the stock split by CRDB Bank Plc, the percentage trading activity ratio was calculated and plotted on the graph represented by figure 4.6. The study revealed further how the market reacted in days before and after the stock split. The graph shows that initially there was a decrease in trading activity about 4 days before and after the stock split. Activity was then seen to increase from about 7 days around the stock split. The study found more that there was a steady reaction when CRDB Bank Plc split its stock. The kind of activity shown on figure 4.6 is one that is expected when there is a normal trading activity of shares in the market.

In regard to question 16 of the interview questions to DSE Staff and Licensed Brokers together with question 10 of the questionnaires to Shareholders, the study ascertained whether share split would have any effect on return to shareholders. In

this connection, respondents were asked to rank as YES if share split affect return to shareholders and NO if no any effects as enumerated on figure 4.7 below.

**Figure 4. 7: Does Share Split have any Effect on Return to Shareholders?**



Source: Research Data, 2013

Results on figure 4.7 revealed that 83 percent said no share split has no any effect on return to shareholders while 13 percent said yes there are some effects and 4 percent were neutral. In this connection, respondents in view of NO had the following arguments.

#### **Equity is Unaffected**

A stock split doesn't affect the equity of existing shareholders because an investor who had 100 shares before a 2-for-1 split will have 200 shares after the split. If the stock was worth Tshs. 1,000 a share before the split, the investor had Tshs. 100,000 worth of stock. After the split, the stock would worth Tshs. 500 a share, but the investor has 200 shares so he still has Tshs. 100,000 worth of stock. The investor's share holding doubled in size without him having to put out any more money, while the overall value of his holding stayed the same.

### **No Dividend Loss**

If the company pays a dividend and splits 2-for-1, the dividend per share is cut in half but is paid on twice the number of shares. If the stock was paying a dividend of Tshs. 40 per share per year before the 2-for-1 split, it will pay Tshs. 20 per share after the split. An investor who owned 100 shares before the split collected Tshs. 40 per share dividend for a total of Tshs. 4,000 per year. After the split, he collects Tshs. 20 dividend per share, but because he now owns 200 shares he still receives Tshs. 4,000.

### **Same Proportion**

Stock splits don't affect proportional ownership. If a company makes a 2-for-1 split to double the number of total shares, it doubles the number of shares owned by each of its existing stockholders. Before the split, a shareholder who owned 10,000 of the company's 1 million shares owned 1 percent of the stock. After the split, he owns 20,000 of the company's 2 million shares, so he still owns 1 percent of the stock.

Unlike arguments for respondents who said NO share split does not affect return to shareholders, the study revealed that informants who said YES had the following arguments. Since share split has its own costs such as legal and notification costs to doing the split, as the company must make the appropriate Board of Directors resolution and then notify shareholders, exchanges, regulators, etc. Such cost would definitely reduce profit and the end reduces dividend payable to shareholders, hence affect return to shareholders in such a way.

## **CHAPTER FIVE**

### **CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter summarizes and draw conclusions on the whole study, ascertaining the attainment of the research questions. In this connection, recommendations for areas needed improvement on the effects of share split on the shareholders wealth was concerned would be described together with suggested areas for future study identified.

#### **5.2 Conclusion**

From time to time, companies would want to change the amount of shares available in their company or the price of their stock. The typical way of doing this involves stock splits and it's very successful in accomplishing the desired objectives. The stock market news has grown very accustomed to this phenomenon and while there is usually some initial excitement over stock split, the end result is generally very smooth. There several reasons for the stock splits and what effect they have on the stock market (Brown and Warner, 2004). In this accord, different types of stock splits can have different effects on the stock market news based on the reasons they are implemented whereas a thorough study of the same would be of paramount. Therefore, this necessitated the study to focus on the effects pertaining to share split on shareholder's wealth at the Dar Es Salaam Stock Exchange (DSE).

To make the aforesaid study researchable four specific objectives were set including; to explore reasons for share split, to determine whether price of split share follow any definite identifiable pattern, to analyse pros and cons pertaining to share split, and to assess the effect of share split on return to shareholders.

Likewise, attaining the objectives set the following methodologies were instituted, the study deployed a case study research design which is descriptive in nature due to the fact that it was less expensive compared to other designs like surveys and experiments. The study was conducted at the Dar es Salaam Stock Exchange (DSE)

as incorporated in 1996 as a company limited by guarantee without a share capital located at the fourth floor, Twiga Building, Samora Avenue, Dar es Salaam. Moreover, the study attained a 94 percent response rate where 13 respondents were from DSE Staff, 8 respondents from Licensed Brokers and 96 respondents from Shareholders.

Again, purposive and snowball sampling techniques were deployed in attainment of primary data of the study. Nonetheless, data collection methods used included questionnaires, interview guide and documentary review. The study used a description of findings to show the relationship between objectives and the result of the study by qualitative analysis involved examining data basing on the attributes shown by the respondents and making discussion with them. In Quantitative analysis the researcher used percentages, tables and frequency. In this connection, data were analyzed using excel spread sheet package.

As far as research findings is concerned, the study attained fully its specific objectives whereas the first objective aimed exploring reasons for share split revealed psychological, increasing stock liquidity, withdraw of principal investor and speculative factors being the major reasons for the same. Likewise, objective number two aimed at determining whether price of split share follow any definite identifiable pattern revealed that corporate decision (94%), economic factors (85%), regulatory guide (78%) and circumstantial factors ranked by 67 percent of respondents.

On the other hand, objective number three aimed at analyzing pros and cons pertaining to share split found that price affordability, wider ownership base, fulfilling investors expectation, strengthening company's image and rival competition were among the pros while some investors perceive split share as cheap, cost of split, listing requirements and split shares being prone to unwanted investors as cons to share split.

However, the fourth objective focused on whether or not there is any effect of share split on return to shareholders revealed that 83 percent of respondents said NO share

split has no any effect on return to shareholders and 13 percent said YES share split had effect on return to shareholders. In this accord, arguments in support of that that share split has no any effect on return to shareholders focused on equity being unaffected, no dividend loss and maintain of same proportional prior and post share split. On contrary, 13 percent of respondents who said Yes share split has effects on return to shareholder supported their views by saying share split has its costs that in turn reduce profit and dividend payable to shareholders.

### **5.3 Recommendations**

Basing on research findings the following are recommended.

#### **5.3.1 Listed Companies**

The study revealed that share split is a corporate action, in so doing the corporate would decide otherwise than allowing share split as would be prone to its own costs that reduce profit and hence dividend payable to shareholders. In this regard, listed companies are hereby advised to adhere to the article 42 of the Tanzania Capital Market and Securities Act of 1994 as revised in 2010 requiring the same to involve all stakeholders while deciding to split company's shares.

#### **5.3.2 Shareholders**

The study revealed further that some principal investors who are dividend driven would be among the causes for share split once decided to withdraw their investments (share). The study is hereby advising such principal investors to think critically before deciding to withdraw their shares given the fact that withdrawing action had adverse impact to the company and economy in general, but if thought so, should perform a gradual withdraw and not otherwise.

#### **5.3.3 Policy Makers**

The study revealed that article 57 of the Capital Market and Securities Act of 1994 as amended in 2010 prohibits price per share after share split to be below the primary offer, in this connection CRDB share prices were quoted sold once in a time at Tshs. 110 which is far below its primary offer of Tsh. 150 though in a very short period of

time stabilized to Tshs. 160. Therefore, the study is hereby advising policy makers to be aggressive on what regulations direct.

#### **5.4 Areas for Future Studies**

Basing on research findings the following would be suggested as areas for further studies; analysis of knowledge on share investments among Tanzanians, effectiveness of the Tanzania capital market and analysis of the contribution of share business among others in a listed company.

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## APPENDICES

### APPENDIX I

#### INTERVIEW QUESTIONS TO THE DSE STAFF AND BROKERS

Dear Sir/Madam,

I am a Final year student for Masters Degree of Science- Account and Finance at the Mzumbe University – Dar Es Salaam Campus doing dissertation on the “Effect of Share Split on Shareholder’s Wealth”, a case of the Dar Es Salaam Stock Exchange (DSE). Please accord me with required information on this questionnaire to facilitate accomplishment of the said dissertation.

#### Section A: Demographic Characteristics

1. Nature of Organization you are working with: DSE ( ) Brokerage ( )
2. Management Level: Directorate ( ) Departmental ( ) Managerial ( ) Officer ( )
3. Age: 18 - 27 ( ) 28 - 37 ( ) 38 - 47 ( ) Above 48 ( )
4. Gender: Female ( ) Male ( )
5. Marital status: Married ( ) Divorced ( ) Unmarried ( ) Widowed ( )
7. Level of Education: Diploma ( ) First Degree ( ) Masters ( ) Doctorate ( )
8. Working experience (In years): Less than 1 ( ) 1- 3 ( ) 4 - 9 ( ) 10 and Above ( )

#### Section B: Please give your opinions on the following questions

9. Have you heard of any share split? YES ( ) NO ( )
10. Did share split act happened in Tanzania? YES ( ) NO ( )
11. If YES on 10 above, how many listed companies had undergone any share split?
12. In your own opinions what do you think are the reasons for share split?
13. What do you think are the procedures for share split?
14. Do you think price of split share follow any definite identifiable pattern?, and what are those patterns.
15. In your own opinions what do you think are the pros and cons of share split to;
  - a) The company
  - b) Individual Shareholders
16. Do you think share split would affect shareholder’s return? YES ( ) NO ( )
- 17 If YES on 16 above how?

**Thanking you for your cooperation**

## **APPENDIX II**

### **QUESTIONNAIRES TO SHAREHOLDERS**

Dear Sir/Madam,

I am a Final year student for Masters Degree of Science- Accounting and Finance at the Mzumbe University-Dar Es Salaam campus doing dissertation on the “Effect of Share Split on Shareholder’s Wealth”, a case of the Dar Es Salaam Stock Exchange (DSE). Please accord me with required information on this questionnaire to facilitate accomplishment of the said dissertation.

#### **Section A: Demographic Characteristics**

1. Economic activity: Business ( ) Employed ( ) Student ( ) Others ( )
3. Age: 18 - 27 ( ) 28 - 37 ( ) 38 - 47 ( ) Above 48 ( )
4. Gender: Female ( ) Male ( )
5. Marital status: Married ( ) Divorced ( ) Unmarried ( ) Widowed ( )
7. Level of Education: Diploma ( ) First Degree ( ) Masters ( ) Doctorate ( )
8. Years holding shares: Less than 1 ( ) 1- 3 ( ) 4 - 9 ( ) 10 and Above ( )
9. Owning shares of single company ( ) or multi companies ( )

#### **Section B: Please give out your opinions**

1. Which company’s shares are you holding?  
Name.....
2. In your shareholding time have you experienced any share split? YES ( ) NO ( )
3. If YES on 2 above, what do you think were the reasons behind?
4. Did share split happen several times or only once? Several times ( ) Once ( )
5. If several times on 4 above how many exactly? ( )
6. If you can recall how did it affect you?
7. Were you informed of such share split? YES ( ) NO ( )
8. If YES on 7 above how were you informed.....
9. Was the information given before share split or after? Before ( ) After ( )
10. After share split did your return (dividend) changed? YES ( ) NO ( )
11. If YES on 10 above, did it increased or decreased? Increased ( ) Decreased ( )
12. What do you think were the advantages and disadvantages towards share split on your side?

**Thanking you for your cooperation**