

Further Evidence on Managerial Motives for Stock Splits

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This field research study uses the responses from a 1991 mail survey to examine managerial motives for issuing stock splits. The sample consists of 251 NYSE and AMEX firms that issued stock splits of at least 25 percent between January 1, 1987 and December 31, 1990. Based on survey data from 136 responding firms, the evidence suggests that the main motive of a split is moving the stock price into a better trading range, followed by improving trading liquidity. The results also show that the mean preferred trading range of stock split firms is from \$20 to \$35, but differs between firms with small ($< 2\text{-for-1}$) versus large ($\geq 2\text{-for-1}$) stock splits.

INTRODUCTION

Most U.S. corporations distribute their earnings to shareholders in the form of cash dividends. They also may distribute additional shares of stock to shareholders, who pay nothing for the shares, in the form of stock dividends and stock splits. Taken at face value, stock distributions are purely cosmetic changes that cut the corporate pie into more pieces. Such stock distributions do not affect a corporation's future cash flows, the proportionate ownership of shareholders, or the claims of other classes of security holders, but they involve administrative costs which can be substantial for large companies. According to this view, a firm cannot alter its market value and hence create shareholder wealth simply through a paper transaction that changes the number of shares outstanding.

If this view is accurate, why do some corporations issue stock splits? Several researchers have tried to answer this question by asking corporate managers about stock splits. In an early survey of managerial attitudes toward stock splits, Dolley (1933) used a sample of 88 splits over the period 1922 through 1930. The primary motive was to increase the liquidity of the common stock and thus bring a wider distribution of the shares. Almost 50 years later, Baker and Gallagher (1980) questioned 100 chief financial officers (CFOs) of NYSE-listed firms with stock distributions of 25 percent or more in 1978. The firms issuing stock splits reported that they did so to provide a better trading range and thereby attract investors and enhance trading liquidity. The similarities in managerial attitudes over this long period are striking.

The current study updates and extends earlier survey research about stock splits by surveying managers of New York Stock Exchange (NYSE) and American Stock Exchange (AMEX) firms that issued stock splits between 1988 and 1990. This study addresses three major research questions. First, why do some corporate managers continue to support

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stock splits given the associated costs and apparently limited benefits of these distributions to shareholders? Second, what is the preferred trading range of firms issuing stock splits? Finally, does this range differ for stocks with small (< 2 -for-1) versus large (≥ 2 -for-1) stock splits?

Another management survey on stock splits is justified for four reasons. First, over a decade has passed since the last survey on stock splits. Managerial views may have changed due to the new body of literature that empirically documents the stock price effect of stock splits and presents new theoretical models for stock splits.

Second, the current survey is a major improvement over the two previous stock split surveys. It is more comprehensive and includes more firms, a longer sample period, and both NYSE and AMEX firms. For example, Baker and Gallagher (1980) limit their questionnaire to a few questions to ensure a good response rate. Furthermore, they base their results on responses from only 63 NYSE firms issuing splits in 1978. The current study goes beyond simply replicating their work.

Third, this study tries to link its empirical results with certain hypotheses that explain the motivation underlying stock split activity. Although the study does not engage in hypothesis testing, it examines which of the leading theoretical hypotheses for stock splits (namely, trading range, signaling, and liquidity) receive the most support by managers.

Finally, the study provides empirical evidence on managers' views about the preferred trading range of their firm's common stock. This information is important because references in the extant literature about a preferred trading range for common stock are based largely on anecdotal evidence.

REVIEW OF PRIOR LITERATURE

Stock splits pose a conundrum to finance theorists. Although these nonevents appear to be purely cosmetic changes, research shows real effects associated with them. Despite extensive study, controversies still abound in the literature about these effects. These controversies include whether stock splits affect shareholder wealth, change a stock's risk, improve liquidity, and provide signals to the market.

Much research examines the impact that stock splits have on shareholders' wealth. In contrast to early research, such as the seminal study by Fama, Fisher, Jensen, and Roll (1969), recent analyses by Grinblatt, Masulis, and Titman (1984) and Ohlson and Penman (1985) report abnormal common stock price behavior around stock splits. Lamoureux and Poon (1987) conclude that the market attaches a positive value to the split because of its tax-option impact. Nichols and McDonald (1983) report market anomalies associated with splitting securities that experience large increases in corporate earnings. Yet Aggarwal and Chen (1989) and Bishara (1988) find no excess returns associated with stock split proposal announcements.

Research also shows an association between stock splits and changes in a stock's risk. For example, Bar-Yosef and Brown (1977) report that the systematic risk of splitting stocks declines in the months after a split. Yet Brennan and Copeland (1988) find that systematic risk is usually higher on the split announcement and ex-dates than on the surrounding days. Several studies (including Ohlson and Penman, 1985; Sheikh, 1989;

Aggarwal and Chen, 1989) report increased volatility for the underlying stock around splits.

There are several possible explanations for the association between splits and risk changes. Lamoureux and Poon (1987) suggest that the split results in an increase in both the number of transactions and shares traded which increases the volatility of the price series. Dravid (1988) suggests that the increase in volatility subsequent to splits may be due to the larger effects of price discreteness and percentage bid-ask spreads on low priced stocks.

Despite the common notion that stock splits improve liquidity, Copeland (1979), Lamoureux and Poon (1987), and Conroy, Harris, and Benet (1990) report that trading liquidity decreases after a stock split. These studies measure liquidity using proportional trading volume and percentage bid-ask spreads. In contrast, Murray (1985) finds no evidence that stock splits have a significant adverse impact on either proportional trading volume or percentage bid-ask spreads. Furthermore, Lakonishok and Lev (1987) report that splits do not appear to exert a permanent effect on trading volume.

The only empirical evidence that trading liquidity improves after a stock split involves increases in stock ownership and the number of transactions. Several studies (including Dolley, 1933; Barker, 1956; and Lamoureux and Poon, 1987) report that the number of shareholders increases after a split. This evidence suggests that stock splits increase the number of shareholders by lowering share price to a more popular range. Therefore, liquidity increases because more persons are buying or selling the stock. Lamoureux and Poon report an increase in the number of daily postsplit transactions which also may increase trading liquidity.

Many hypotheses may explain the persistence of splits and their associated effects. Explanations for stock splits can be classified broadly into three groups—trading range, signaling, and liquidity hypotheses. One explanation suggests that stock splits restore stock prices to some preferred trading range. This presumes that shareholders prefer to purchase round lots but cannot afford to do so when the share price is high. Opponents argue that fees for odd lots are small and institutional investors, who purchase more stock than individuals, are indifferent to price levels, provided the expected returns are commensurate with the risk.

Another explanation is the signaling or information asymmetry hypothesis which states that stock splits are informative signals of favorable future prospects for the firm. Given information asymmetry between managers and investors, the former might use stock splits to convey favorable information to the latter. This argument requires some cost for false signaling. Otherwise, separating undervalued from overvalued stocks of firms declaring stock distributions would be impossible. Brennan and Copeland (1988) show that stock splits serve as costly signals of managers' private information because stock trading costs depend on stock prices.

In the Brennan and Hughes (1991) model, higher commissions on stocks with lower prices serve as the cost for issuing the split. These higher commissions also provide the incentive for full service brokers to follow firms more closely that have their prices in an optimal trading range. Therefore, by issuing a split and lowering its stock price into a higher commission range, a firm makes its stock more attractive to full service brokers and draws the attention necessary to reveal favorable private information.

A third explanation for stock splits focuses on managements' desire to use splits to improve trading liquidity. Proponents of this view suggest that splitting firms can make shares more attractive to investors by lowering the stock price. By attracting attention, stock splits may affect both the number of trades and the number of stockholders. Increases in these two variables may serve to increase a stock's postsplit liquidity. For example, if splits enable more individual investors to buy shares in round lots, the number of trades may increase, but the average size of the trades may decline. Empirical research is inconsistent on the effect of stock splits on trading liquidity.

In light of the Brennan and Hughes (1991) work, the hypotheses about stock splits need not be conflicting. For example, the optimal trading range may be desirable because it is associated with higher commissions and trading costs. This makes the stock more desirable for full service brokers and draws attention to the stock. Thus, the trading range, signaling, and liquidity hypotheses are closely tied and complementary, not conflicting.

Researchers have examined hypotheses about stock splits using two divergent but complementary approaches—surveying managers and using market data. Few researchers have surveyed managers to get their views about stock splits. Most have used stock market data to make inferences about managerial motives and to explain real effects of stock splits. For example, Lakonishok and Lev (1987) find that firms with an unusual growth in earnings and stock prices issue stock splits. They infer that the main objective of the split is to return the stock price to a normal range after an unusual growth period. The normal range is based on market and industry-wide price averages and possibly on some firm-specific prices. Their results partially support the signaling motive, but not the liquidity motive.

McNichols and Dravid (1990) provide further support for an optimal trading range. They find that split factors are an increasing function of presplit share prices which implies that managers have some preferred trading range in mind when issuing stock splits. McNichols and Dravid also find an inverse relationship between split factors and the market value of a firm's equity. This finding implies higher preferred trading ranges for larger firms. They suggest that a firm's desire to keep its stock price in a certain range may outweigh its desire to signal inside information to investors. That is, a firm's presplit price and market value of equity explain more of the variance of split factors than information-signaling variables.

Klein and Peterson (1989) find that companies announcing splits experience greater earnings forecast revisions than similar nonsplitting matched controlled companies. The difference in forecast revisions between split and control companies is significantly positively related to abnormal returns at the split announcement. These results, consistent with those found by Lakonishok and Lev (1987), suggest that split announcements convey information about future earnings and that this information may cause abnormal returns at the announcement. Grinblatt, Masulis, and Titman (1984) also support the notion of informational signaling of stock distributions.

Elgers and Murray (1985) examine the actual managerial behavior for small (< 25 percent) and large ($\geq$ 25 percent) stock distributions. A factor prompting management to issue small stock distributions appears to be the desire to signal optimistic expectations. Also, small firms with low stock prices tend to issue small stock dividends. The results of the analysis of large distributions suggest that a primary motivator is to reduce the per

share price. Their findings also show that a desire to signal optimistic expectations may be a motivator.

In summary, empirical evidence on stock splits supports both the trading range and signaling hypotheses, but is inconsistent on the notion that splits improve a stock's trading liquidity. Finally, evidence suggests that stock splits increase volatility.

RESEARCH DESIGN AND RESPONDENT PROFILE

SAMPLING PROCEDURES

The primary source of firms issuing stock splits is the University of Chicago's CRSP tapes for the NYSE and AMEX. The CRSP tape classification is used to distinguish stock splits and stock dividends. The sample provided by CRSP is based on *Moody's Dividend Record* which uses managements' classification of the stock split. The period 1988 through 1990 is selected to provide a large enough sample for survey purposes, but one short enough to ensure reaching someone knowledgeable about the firm's stock split decision. The final sample consists of 251 different NYSE and AMEX firms that issued a stock split of at least 25 percent from 1988 through 1990 and remained in business in June 1991. Some firms had multiple stock splits over this period.

SURVEY QUESTIONNAIRE

The questionnaire has two parts. Part I asks survey respondents to give their general opinion on 17 statements about stock splits. The primary sources of these statements are research on stock splits and finance textbooks. Respondents were asked to indicate their level of disagreement or agreement with each statement on a seven point scale:

- 3 = strongly disagree;
- 2 = moderately disagree;
- 1 = slightly disagree;
- 0 = no opinion;
- +1 = slightly agree;
- +2 = moderately agree; and
- +3 = strongly agree.

Table 1 lists these 17 statements and shows their order in the survey.

Recipients were asked eight questions in Part II of the questionnaire. Four questions refer to their firm's most recent stock split. They were asked to indicate the year in which their firm issued its most recent stock split, the size of the split, and whether they were involved in the stock split decision. Also, they were asked to select the two most important motives for their firm's most recent stock split from a list of eight motives plus an "other" category.

Three of the remaining four questions provide a respondent profile. Recipients were asked to indicate the preferred trading range of their firm's stock price, their firm's industry classification, and their current job title. Finally, recipients were asked if they wanted a summary of the findings.

A questionnaire accompanied by a cover letter and a stamped return envelope was mailed on June 1, 1991 to the highest ranking financial officer of each company. *Standard & Poor's Corporate Directory* was used to find the names and company addresses of these

Table 1—Management Views on Stock Split Issues

Survey Number	Issue	Disagree -3 -2 -1	No Opinion 0	Agree +1 +2 +3	Mean (Standard Deviation)	Rank
IS1	A stock split Puts a firm's stock price into a preferred trading range	3.7%	5.1%	91.2%	2.05 (1.08)	1
IS4	Makes it easier for small stockholders to buy shares in round lots	2.2	10.3	81.5	1.96 (1.14)	2
IS2	Makes shares more attractive to investors by lowering the stock price	3.7	3.0	93.3	1.83 (1.00)	3
IS11	Occurs after an upward trend in a firm's stock price	2.2	11.1	86.7	1.78 (1.05)	4
IS9	Improves the trading liquidity of a firm's stock	4.4	7.4	88.2	1.59 (1.18)	5
IS10	Has a favorable market reaction on a firm's stock price	5.9	20.7	73.3	1.00 (1.14)	6.5
IS3	Increases the number of a firm's stockholders	11.8	16.2	72.1	1.00 (1.44)	6.5
IS5	Strengthens a firm's equity base by enhancing the marketability of its shares	14.7	16.2	67.1	.98 (1.43)	8
IS6	Conveys favorable information about a firm's future prospects	15.6	14.8	69.6	.97 (1.60)	9
IS12	Increases the demand for a firm's stock among individual investors	11.0	24.3	64.7	.87 (1.16)	10
IS8	Occurs after an upward trend in a firm's earnings per share	21.5	20.7	57.8	.63 (1.50)	11
IS15	Is purely cosmetic (i.e., it does not affect a firm's cash flows and shareholders retain their proportionate share)	33.3	6.7	60.0	.51 (1.89)	12
IS17	Improves the upside potential of a firm's stock price	22.8	18.4	58.8	.35 (1.64)	13
IS14	Makes it easier for a firm to sell new equity capital	36.0	36.8	27.2	-.25 (1.35)	14
IS13	Increases a firm's stock return volatility	40.0	48.1	11.9	-.69 (1.20)	15
IS16	Increases the total market value of a firm's stock	47.1	20.6	32.4	-.74 (1.80)	16
IS7	Helps a firm conserve cash	67.6	22.8	9.6	-1.31 (1.60)	17

Note: The sample size was 136, except IS2, IS6, IS8, IS10, IS11, IS13, and IS14 when it was 135. The seven point scale was: -3 = strongly disagree, -2 = moderately disagree, -1 = slightly disagree, 0 = no opinion, +1 = slightly agree, +2 = moderately agree, and +3 = strongly agree

individuals. Nonrespondents were sent a follow-up questionnaire and another cover letter and stamped return envelope on July 5, 1991.

Of the initial sample of 251, three surveys were returned unopened. In these cases, the financial officer had left the company. Recipients returned 22 questionnaires unanswered, but some stated that company policy prohibited participation. The survey yielded

136 completed questionnaires—114 from the first mailing and 22 from the second mailing. The combined response rate was 54.8 percent.

RESPONDENT PROFILE

To help ensure responses from knowledgeable individuals, recipients were asked to have someone familiar with stock splits answer the survey. Of the 136 respondents, 83.6 percent said they actively participated in their firm's most recent stock split decision. A comparison between this group and the remaining respondents showed insignificant differences between these groups. Therefore, the following analysis includes all responses.

Most respondents are chief financial officers (66.2 percent), followed by investor relations managers (10.3 percent), treasurers (8.8 percent), chairmen, presidents, and chief executive officers (7.4 percent), and others (7.3 percent), including directors of strategic planning and analysis. The industry groups making up at least 5 percent of the responses are manufacturing (44.0 percent), utilities (14.2 percent), retail (9.7 percent), service (8.2 percent), and financial (7.5 percent). These responses compare favorably to the distribution of industry groups for the sample as whole. Of the 136 responding firms, 47.1 percent had splits < 2-for-1, 48.5 percent had 2-for-1 splits, and the remaining 4.4 percent had splits > 2-for-1.

SURVEY RESULTS

ISSUES ABOUT STOCK SPLITS

Table 1 gives descriptive statistics on 17 issues (identified by IS) about stock splits. Respondents gave their general opinion about firms issuing stock splits using a seven point disagreement-agreement scale. At least 80 percent of the respondents agree with five statements (IS1, IS4, IS2, IS11, IS9). These five statements also have the highest means and few disagree and no opinion responses compared with the remaining issue statements.

The three statements with the highest rankings are:

- A stock split puts a firm's stock price in a preferred trading range (IS1);
- A stock split makes it easier for small stockholders to buy shares in round lots (IS4); and
- A stock split makes shares more attractive to investors by lowering the stock price (IS2).

Baker and Gallagher (1980) report similar results for comparable questions. For example, 93.7 percent of their respondents agreed that stock splits keep a firm's stock price in an optimal price (preferred trading) range compared with 91.2 percent in the current study.

About 87 percent of the respondents also agree with the statement that a stock split occurs after an upward trend in a firm's stock price (IS11). Although the level of agreement was not as strong, almost 58 percent of the respondents agree that a stock split occurs after an upward trend in a firm's earnings per share (IS8). These views are consistent with empirical results reported by Lakonishok and Lev (1987) that firms with an unusual growth in earnings and stock prices execute stock splits.

The final statement receiving at least 80 percent agreement is

- A stock split improves the trading liquidity of a firm's stock (IS9).

As discussed before, the empirical evidence of whether a stock split improves liquidity varies and depends on the liquidity measure used. Because liquidity is not defined explicitly in the questionnaire, some ambiguity may exist among respondents about the meaning of the term. Telephone interviews were conducted with five CFOs who gave improving liquidity as the primary motive for issuing a stock split. Although liquidity often is identified in economic terms with lower transactions costs for immediacy in trading and with less price volatility, none of those interviewed describe liquidity using trading volume or percentage bid-ask spreads. Instead, they view liquidity as the ease of selling stock with little change in price. These managers perceive that bringing the stock price into a better trading range increases the number of shareholders and the frequency of trading which, in turn, may enhance liquidity.

These views about liquidity seem consistent with the high level of agreement expressed by respondents on three other statements:

- A stock split increases the number of a firm's stockholders (IS3);
- A stock split strengthens a firm's equity base by enhancing the marketability of its shares (IS5); and
- A stock split increases the demand for a firm's stock among individual investors (IS12).

As discussed before, evidence by Lamoureux and Poon (1987) supports the belief expressed by these managers that the number of shareholders increases after a split.

Several other statements deserve attention because they relate directly to other empirical findings in the extant literature. For example, about 73 percent of the respondents agree with the statement that a stock split has a favorable market reaction on a firm's stock price (IS10). Although research differs slightly on the market reaction to a split announcement, several major studies including Grinblatt, Masulis, and Titman (1984) and Ohlson and Penman (1985) report positive abnormal returns.

Almost 70 percent of the respondents agree that a stock split conveys favorable information about a firm's future prospects (IS6). Empirical evidence supports the notion that stock splits provide some informational signaling. For example, Grinblatt, Masulis, and Titman (1984) find that some information content of stock distributions appears to be associated directly with firms' future cash flows. Lakonishok and Lev (1987) conclude that their evidence seems consistent with some signaling conveyed by stock splits, about either stabilization of earnings growth after the abnormal presplit growth, improved cash dividends prospects, or both.

Despite the empirical support for many managements' opinions about stock splits, there is one notable exception. Table 1 shows that about 12 percent of the respondents agree with the statement that a stock split increases a firm's stock return volatility (IS13). About half (48.1 percent) express no opinion, and 40.0 percent disagree with this statement. Evidence by Ohlson and Penman (1985), Sheikh (1989), and Aggarwal and Chen (1989) consistently shows that volatility increases around stock splits.

A final area involves managements' views on the controversy of whether a split is purely cosmetic (IS15) or increases the market value of a firm's stock (IS16). Although the responses vary, most managers (60.0 percent) agree with the first statement (IS15), but only 32.4 percent agree with the second statement (IS16). Further analysis shows that

only 16.2 percent of the total respondents agree with both statements. Because IS15 and IS16 are opposites, the latter evidence suggests a high level of consistency among the respondents. Apparently, some managers engage in stock splits for motives other than the accepted view of shareholder wealth maximization. The next section provides further evidence about managements' motives for issuing stock splits.

MOTIVES FOR STOCK SPLITS

Table 2 summarizes the primary and secondary motives (identified by M) for issuing stock splits. The results clearly show that managers believe the most important reason for undertaking a split is moving the stock price into a better trading range (M1). Over half (50.7 percent) gave this as their firm's primary motive. The second most highly ranked motive was improving the stock's liquidity (M2), followed by signaling optimistic managerial expectations about the future (M3), and attracting more investors (M7). Few managers gave increasing the total market value of the firm's stock (M5) or conserving cash (M8) as important motives for issuing stock splits.

Not surprisingly, these motives correspond to managements' views on comparable stock split issues shown in Table 1. That is, if managers did not agree with a certain issue, they probably would not give it as a motive for splitting their firm's stock. As Table 1 shows, 91.2 percent of the respondents agree with the statement that a stock split puts a firm's stock price into a preferred trading range (IS1); 88.2 percent believe that a stock split improves the trading liquidity of a firm's stock (IS9); 69.6 percent say that a stock split conveys favorable information about a firm's future prospects (IS6); and 93.3 percent perceive that a split makes shares more attractive to investors (IS2). Only 32.4 percent of the respondents say that a stock split increases the total market value of a firm's stock (IS16), and 9.6 percent agree that it helps a firm conserve cash (IS7).

Comparing these motives for issuing splits to those reported by Baker and Gallagher (1980) shows some striking similarities. Both studies report that the most important motives are providing a better trading range, improving liquidity, and attracting more investors. The respondents of both studies also believe that stock splits convey favorable information about the future.

In-depth telephone interviews with a sample of five other managers provide additional insights into their rationale for issuing stock splits. They perceive that lowering the share price attracts investors, especially individual investors, and therefore increases the ownership base. These managers want a wider distribution of shares because they believe that it enhances trading liquidity. A few believe that shifting the composition of shareholders toward a greater proportion of individuals could lessen the chance of an unfriendly takeover.

PREFERRED TRADING RANGE OF STOCK PRICE

When deciding to issue stock splits, managers presumably issue the number of shares that they do with some purpose in mind. Evidence presented in Tables 1 and 2 strongly suggests that the major purpose is to lower the stock price and thus bring it into a preferred trading range. Although the costs and benefits of a particular trading range are not understood fully, Brennan and Copeland (1988) suggest that firms do not split by a factor

Table 2—Motives for Stock Splits

Survey Number	Motive	Importance		Weighted Score*	Rank
		Primary (n = 136)	Secondary (n = 132)		
M1	Move the stock price into a better trading range	69 (50.7%)	31 (23.5%)	169	1
M2	Improve the stock's liquidity	30 (22.1)	6 (27.3)	96	2
M3	Signal optimistic managerial expectations about the future	19 (14.0)	21 (15.9)	59	3
M7	Attract more investors	4 (2.9)	22 (16.7)	30	4
M9	Other	4 (2.9)	5 (3.8)	13	5
M5	Increase the total market value of the firm's stock	4 (2.9)	4 (3.0)	12	6
M4	Provide a management signal that the firm's stock is undervalued	2 (1.5)	7 (5.3)	11	7
M6	Capture attention from the investment community	1 (.7)	2 (1.5)	4	8
M8	Conserve cash	0 (0)	1 (.8)	1	9
M10	Don't Know	3 (2.2)	3 (2.3)	NA	NA

NA = Not applicable

Note: Percentages may not total 100 due to rounding

*The weighted score for each motive was calculated by multiplying the number of primary responses by 2 and the number of secondary responses by 1 and then summing the results

larger than is warranted by their stock price and private information. McNichols and Dravid (1990) find that firms incorporate their private information about future earnings in choosing their split factor. Their results also suggest that investors' inferences about firm value correspond to firms' split factor choices.

Table 3 shows the preferred trading range of firms issuing stock splits. The mean preferred trading range for the full sample is about \$20 to \$35. Managers of firms having < 2-for-1 splits express a lower preferred trading range than those with $\geq$ 2-for-1 splits (about \$18 to \$29 versus \$23 to \$41, respectively). Chi-squared tests show that the distribution of stock prices between firms with < 2-for-1 and $\geq$ 2-for-1 stock splits is statistically significant at the 5 percent level for both the from and to portions of the trading range.

Finding a different preferred trading range for firms with small (< 2-for-1) versus large ($\geq$ 2-for-1) stock splits is not surprising. Nichols and McDonald (1983) show that split factors are increasing in presplit share prices and decreasing in the presplit market value of equity. The first relation confirms the notion that firms split their shares to bring them into a specific range; the second confirms the idea that larger firms prefer a higher trading range. Therefore, a plausible explanation for these findings is that firms with high stock prices are likely to issue larger splits but also prefer a higher trading range because of their higher market capitalization.

SUMMARY AND CONCLUSIONS

Few studies have tried to determine the motivation for stock splits by asking corporate managers involved in these decisions. Yet both the market and researchers often draw

Table 3—Preferred Trading Range for Firms Issuing Stock Splits

Statistics	Full Sample (n = 113)		Preferred Stock Prices Split < 2-for-1 (n = 52)		Split ≥ 2-for-1 (n = 61)	
	From	To	From	To	From	To
Panel A						
Statistics						
Range	\$1-65	\$3-100	\$1-50	\$3-60	\$7-65	\$15-100
Mean	20.41	35.48	17.60	28.62	22.80	41.33
Standard Deviation	9.37	18.24	7.35	11.69	10.27	20.72
Median	20.00	30.00	15.00	25.00	20.00	35.00
Panel B						
Distribution						
≤ \$10	11.5%	.9%	15.4%	1.9%	8.2%	0%
> \$10 to \$15	28.3	4.4	34.6	5.8	23.0	3.3
> \$15 to \$20	30.1	14.2	32.7	23.1	27.9	6.6
> \$20 to \$25	10.6	19.5	11.5	23.1	9.8	16.4
> \$25 to \$30	13.3	18.6	3.8	19.2	21.3	18.0
> \$30 to \$35	.9	6.2	0	5.8	1.6	6.6
> \$35 to \$40	2.7	14.2	0	13.5	4.9	14.8
> \$40 to \$45	0	2.7	0	0	0	4.9
> \$45	2.7	19.5	1.9	7.7	3.2	29.5

Note: Percentages may not total 100 due to rounding

inferences from such managerial decisions. The results presented in this paper give managements' professed intentions for undertaking stock splits.

The evidence suggests that the main motive for stock splits is moving the stock price into a better trading range, followed by improving trading liquidity. Other important motives include signaling optimistic managerial expectations about the future and attracting investors. Comparing these results to prior survey research suggests that managements' motives for stock splits, especially trading range and liquidity, have endured for a long time. The results also show that the mean preferred trading range of stock split firms is from \$20 to \$35. This range differs significantly between firms with small (< 2-for-1) versus large (≥ 2-for-1) stock splits.

The study helps to explain an apparent inconsistency between managements' expressed belief that splits improve shareholder liquidity and empirical evidence that splits result in decreased liquidity. Several studies reporting a reduction in liquidity use trading volume and percentage bid-ask spreads as liquidity measures. Yet managers often do not view liquidity in these terms. Instead, they perceive liquidity in terms of increasing the number of shareholders and widening the ownership base. Empirical evidence supports the notion that stock splits result in an increase in these liquidity-related factors affecting liquidity. Hence, the findings lend some credence to managements' view that splits increase liquidity.

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