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Stock splits in a retail dominant order driven market

Pantisa Pavabutr, Kulpatra Sirodom *

Thammasat University, Thailand

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ABSTRACT

This paper uses intraday and daily data from the Stock Exchange of Thailand (SET) between 2002 and 2004 to provide evidence that firms use stock splits to bring their stock prices down to a preferred trading range of their clientele base. Stock splits reduce bid–ask spreads and intraday and daily price impact while increasing depths supplied by retail investors who account for 60–70% of trading on the SET. Firms that choose a high split factor experience greater improvement in liquidity. The study finds no evidence that split announcements are used to signal post-split earnings performance.

1. Introduction

Stock splits have long intrigued researchers since what appears to be paper transactions that changes the number of shares outstanding have in fact created notable wealth impact for shareholders. To examine the motivation for splits, researchers have developed various hypotheses. In their frequently cited surveys of US firms, Baker and Gallagher (1980), and Baker and Powell (1993) find that over 90% of their respondents agreed that stock splits keep stock price within a preferred trading range. This hypothesis reflects the view that by catering to investor's preferred trading range, liquidity for stocks is expected to rise as a consequence of an enlarged clientele base. Existing research relating to this issue provides mixed views because of the unobservability of clientele type at the transaction level and the differences in the liquidity measures selected in the studies.

To clarify the impact of stock splits on clientele base and liquidity, we use the intraday and daily data of firms listed on the Stock Exchange of Thailand (SET) that have split activities in 2002 to 2004. The disclosure of

* Corresponding author. Faculty of Commerce and Accountancy, Thammasat University, 2 Prachan Road, Bangkok 10200, Thailand. Tel.: +66 2 613 2287.
E-mail address: ksirodom@gmail.com (K. Sirodom).

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