The impact of a stock split on the firm's share price on the Nairobi Stock Exchange.

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Abstract:

The purpose of this study is to investigate the impact of a stock split on the firm's share price on the Nairobi Stock Exchange. A stock splits "is Just a finer slicing of a given cake" (Lakonishok and Lev, (1970)).In theory, this has no effect on the investors returns nor the shareholders value but it's not so in practice. Stock splits have been widely explored in the developed nations with the first study having been done by James Dolly in 1933 but are relatively new events in the Kenyan market; since the year 1994, the NSE registered its first stock split in 2004; that was for Kenya Oil Company. This was later followed by a series of 8 more splits by the end of the year 2008. Theories of stock splits and reasons for splitting have been explored but little is known about the effect of a split on the stock price in the NSE and the magnitude of the effect which is the focus of this study.

A total of nine companies that split their stock between the year 2000 and 2008 will be studied to establish whether there were any abnormal returns recorded within the event window and calculate the magnitude of the returns. The event study methodology will be used to examine the behavior of firms' stock prices around the stock split. Abnormal returns within the event will be measured. Bar graphs representing average prices for the month prior and after the split will be drawn. Further; a graph of the abnormal return against cumulative abnormal return over the event window will be drawn to check the effects of the event on return. Conclusion and recommendations will be made based on the research findings.