The Analysis of Stock Dividends Role and its Effect on Expanding Ownership in Accepted Companies in Stock Exchange of Tehran

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Abstract: Purpose: Analyzing the role of stock dividend from signaling viewpoint and its effect on expanding ownership in accepted companies in stock exchange of Tehran is the purpose of this study. Research Method: It is a descriptive and after-incidence study, a practical one and a field study regarding control and supervision, which is conducted between 2001 and 2007 in Tehran Stock Exchange. Descriptive statistical methods such as frequency statistics, percentage and mean are used according to the typology of the study. Determining the relationships between variables, two case studies are used for the first three theories and one model is used for the forth theory. In this period, 76 companies issued stock dividend 122 times. Different samples are selected for testing hypotheses. Among companies who have published stock dividend, 39 companies are selected for the first hypothesis, 58 for the second, 30 for the third and 30 for the fourth one and similar numbers are selected among companies who have not published any stock dividend for each hypothesis according to the specific conditions. In order to extract and collect the required data, we used the available data of Tehran Stock Exchange such as reports, articles, magazines and etc. We also used the information available in the companies. Results: 1. Publication of stock dividend causes the expansion of ownership or in other words, increases the number of stockholders in Tehran Stock Exchange. 2. There is not any difference in the EPS of companies who have published stock dividend and those who have not. 3. There is a significant difference in the DPS of stockholders in the years before and after the publication of stock dividend. 4. Results show that there is a 6.44 % return about general assembly of companies who have published stock dividend. If anyone buys stock two weeks before general assembly and sells it two week later, this person can gain such a return.

Key words: Stock dividend, Stock split, expanding ownership, signaling hypothesis, Tehran stock exchange

INTRODUCTION

There is no economic value for stock dividend and researchers have not found any reason regarding its value. Common opinions suggest stockholders do not gain any real profit from stock dividend. During the publication of stock dividend, the number of stocks increases but it does not create any new cash and economic value and the company value would not theoretically change. But regarding this point, it is surprising that companies, in spite of having real costs, follow this process. It is more surprising that announcing stock dividend increase the price of stocks (Abdollahzadeh, 1994). (Grinbalt, Masulhs and Titman, 1984) have noted this issue. Meaningful and positive effects of this announcement caused GMT to suggest this hypothesis that "companies announce some special information about publication of stock dividend and stock split." Then this hypothesis was investigated by many researchers as the signaling hypothesis. It is interesting that those researchers also obtained similar results.

This study analyzes the publication of stock dividend from the signaling perspective and the effect of stock dividend on expanding ownership and regarding the field of the research, which is partially derived from this main issue, will answer these four main questions:
1. Do companies who have published stock dividend have more EPS in years after publication?
2. Can we say that DPS of companies who have published stock dividend has an increasing procedure?
3. Does the publication of stock dividend have positive psychological effect on stockholders of Tehran Stock Exchange?
4. Is there a meaningful relationship between the publication of stock dividend and expanding of company’s ownership in Tehran Stock Exchange?

A lot of researches have been conducted in this field. (Grinbalt, Masulhs, and Titman, 1984) concluded in their studies that there is a positive price reaction about publication of stock dividend. This study supports the hypothesis that stockholders infer the future perspective of company in a better way after announcing stock
dividend. (Nichols and Dravid, 1990) reached this result that EPS of companies increased significantly after the publication of stock dividend. (Lokonishok and Lev, 1987) concluded that DPS of companies had increased after announcing stock dividend. (Elgers and Murray, 1985) suggested that interest of managers who give optimistic news forces them to publish stock dividend. The results of (Copeland and Bernnan, 1987) study show that there is a positive relationship between management’s information about the company and selection of stock split percent and stock dividend. In other words, as the information about company become more important and more valuable, the percent of stock split and stock dividend become greater too. (Baker, 1985) found in his study that there is a great but short-term return for public in first days after publication of stock dividend. (Baker and Philips, 1993) concluded that stock dividend has a positive psychological effect on those stockholders who receive it in such a way that they react positively to stock dividend publication. (Fama, Fisher, Janson, Roll, 1996) and have studied this issue in a significant research. They analyzed the speed of stock price change after stock dividend publication and stock split. They also analyzed the rate of stock return in months before and after stock split. Their study shows that stock price increased from some months before announcing the news of stock split and stock dividend. The greatest increase was observed in months near to stock split and stock dividend. Although these evidences show the value of stock split and stock dividend but they show evidences that it does not have any value because the increase in stock price was because of the informational context of news about stock split and stock dividend. Most companies who have published stock split and stock dividend increased DPS between stockholders.

Research Hypothesis:

Hypothesis 1: There is a meaningful relationship between stock dividend publication and ownership expansion of companies in Tehran stock exchange.

Hypothesis 2: In years after publication EPS of companies who have published stock dividend has a greater increase than other companies.

Third hypothesis 3: DPS of companies who have published stock dividend increases after publication.

Hypothesis 4: stock dividend publication has positive psychological effect on stockholders in Tehran stock exchange.

Research Method:

As the purpose of this study is a objective description of events and the researcher does not change any variable, it is a descriptive and after-incidence one. It has practical purpose and it is a field study regarding control level and supervision, which is conducted on active companies of Tehran stock exchange from 2001 to 2007. In this period, 76 companies published stock dividend 122 times. Selected samples for testing hypotheses are different. According to the nature of hypothesis, different samples were selected among companies who have published stock dividend, 39 companies were selected for the first hypothesis, 58 for the second one, 30 for the third and 30 for the forth one. Similar numbers were selected among companies who have not published any stock dividend for each hypothesis according to specific information. In order to extract and collect the required data, we used the available data of Tehran Exchange such as reports, articles, magazines and etc. we also used the information available in the companies.

According to the research type, descriptive statistical methods were used as frequency, mean and percent and determining the relationship between variables, mean comparison method between two samples were used for first three hypotheses and a model was used for the forth one as follow:

\[ TP = \frac{P_B}{1 + d} \]

If \( P_B \) is the latest price before general assembly of stockholders to publish stock dividend and \( d \) is the percent of the approved share, \( T_P \) is the theoretical price of each share after assembly, it is equal to:

If \( P_A \) is the price share in a day after assembly, a stockholder will obtain unreal return \( P_A - T_A \). Since it is possible that a part of unusual return is due to general change of share price in stock exchange, therefore the theoretical price of each share is:

\[ AT_P = T_P \left( \frac{I_A}{I_B} \right) \]

In this equation, \( I_B \) is the share price in Tehran stock exchange in a day before assembly and \( I_A \) is the share price a day after assembly and \( AT_P \) is the decreased theoretical price for each share.

The percent of share price unusual change which is due to stock dividend is calculated as follow:
\[ AR = \frac{P_A - AT_P}{AT_P} \]

If \( AR \) is a positive amount, the stock exchange is valuable from stockholders opinion and if it is zero, it shows that they do not consider stock dividend valuable (Jahankhani & Abbasi, 1995).

RESULTS AND DISCUSSION

1. The publication of stock dividend causes the expansion of ownership or in other word it increases the number of stockholders in Tehran stock exchange. In companies who have published stock dividend, the average increase of stockholders number was 43.1 % and in companies who have not published, it was 0.32 %. This table shows the point:

<table>
<thead>
<tr>
<th>stock dividend publication (percent)</th>
<th>The increase of stockholders number (percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>0.32 %</td>
</tr>
<tr>
<td>Less than 75 %</td>
<td>5.41 %</td>
</tr>
<tr>
<td>More than 75 %</td>
<td>72%</td>
</tr>
</tbody>
</table>

As it is clear in the table, companies who have published less than 75 % stock dividend have 5.41 % increase in the number of stockholders and those who have published more than 75 % have 72 % increase in the number of stockholders. And companies, who have not published any stock dividend, have just 0.32 % increase. It can be said if the percentage of stock dividend publication is high, the interest to buy such stock is greater. This is one of the evidences of positive view to stock dividend.

2. The result of the second hypothesis shows that there is not a meaningful difference in EPS of those companies who have published stock dividend and those who have not. On other hand, the comparison of EPS in years before and after publication shows that EPS of companies who have published stock dividend does not have meaningful increase in the years after publication.

3. Although testing of the third hypothesis shows a meaningful increase in stockholders DPS in years after publication in companies to years before publication but it can not show a desired future of the company, because there is not any meaningful increase in stock return of companies.

4. Results of the fourth hypothesis show that there is a significant return of 6.44 % in general assembly of companies who have published stock dividend. If share is bought two weeks before assembly and is sold two weeks after later, such a return can be reached. another meaningful point is that if it is bought some months before assembly and is sold some months after it, there is an increase in this return.

Conclusion:

Investors who work in Tehran stock exchange receive a positive psychological effect from companies who have published stock dividend. In other words, investors react positively to stock dividend publication. This can be observed in testing of the first and forth hypothesis. It is shown in the first hypothesis that investors tend to have a share of companies who have published stock dividend and this interest increases with the increase of stock dividend percentage. In the fourth hypothesis it is shown that after publishing stock dividend, the share price will not modify enough and this shows the interest of investors to buy shares of companies who have published stock dividend.

REFERENCES
