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Do Market Participants Favor Employee Stock Option Schemes? Evidence from Taiwan

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Abstract

Since their inception in 2000, employee stock options (ESOs) in Taiwan have grown in popularity and captivated market stakeholders. Previous studies have explored how ESOs serve as an incentive to stimulate both employees and management, and hence lead to better performance. If this is true, then positive market reactions toward ESO approval/issue dates and long-run market/operating performance are expected. While our empirical results confirm the short- and long-run stimulation effects and effectiveness of ESOs, we observe that a manipulation effect may also exist in terms of how the ESO strike price is determined prior to their issue date.

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