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Abstract
Since the implementation of stock repurchase on August 7, 2000, the increase tendency demonstrated that stock repurchase has become one of important company financial decisions. When the information is asymmetry between the corporate management authority and outside investors, the forecasting information can reduce the problem of information asymmetry and is more relevant to decision-making than other historical financial information. Therefore, investors will take analyst's earnings forecast for reference when evaluate firms' future performance. However the stock repurchase may have effect on EPS. Through buying back stock, the denominator of EPS decrease; then EPS increase. Different from past earnings management studies, which focus on the numerator of EPS, we explore whether stock repurchase policy is affected by the incentive to manage diluted earning per share to achieve to analyst's forecast.
Furthermore, sound mechanism of ownership structure may reduce the earnings management behavior through stock repurchase. Therefore, we advance discuss whether ownership structure has a positive effect on the relation between stock repurchase and earnings management. We use Taiwan listed firms which announced stock repurchases from August 7, 2000 to December 31, 2007 to test our hypotheses. Our results show that overall, if there is an incentive for managing earnings to achieve analyst's earnings forecast, the expected amount of stock repurchase will be higher. With better ownership structure, the behavior of earnings management through stock repurchase may mitigate, but cannot be suppressed totally.
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