



Decision Analysis of Dividend Distribution versus Share Buyback in Shareholder Value Strategy



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KEYWORDS	ABSTRACT
<p>Keywords:</p> <p>Dividend distribution; share buybacks; shareholder value; corporate strategy; capital allocation.</p> <p>Conflict of Interest Statement:</p> <p>The author(s) declares that the research was conducted in the absence of any commercial or financial relationships that could be construed as a potential conflict of interest.</p> <p>Copyright © 2025 AMFR. All rights reserved.</p>	<p>Purpose: This study analyzes the decision-making process behind dividend distribution and share buybacks, focusing on how companies balance short-term financial goals with long-term shareholder value maximization. The research addresses how internal factors, such as cash flow stability and profitability, and external factors, such as market conditions and investor expectations, influence these financial strategies.</p> <p>Research Design and Methodology: This study uses a qualitative systematic literature review (SLR) to synthesize findings from recent studies on corporate financial strategies. The research consolidates insights into the underlying mechanisms, strategic motivations, and implications of dividend and buyback policies by reviewing and analyzing relevant literature from reputable academic sources.</p> <p>Findings and Discussion: The findings reveal that dividend distribution fosters investor trust by providing consistent returns, signaling financial stability, and enhancing corporate reputation. Conversely, share buybacks offer companies greater flexibility, particularly in volatile markets, by reducing the number of outstanding shares and signaling stock undervaluation. The discussion highlights that both strategies serve as mechanisms to mitigate agency conflicts, aligning management actions with shareholder expectations. However, buybacks must be transparent to avoid negative perceptions of financial manipulation.</p> <p>Implications: The study underscores the practical importance of aligning capital return policies with investor preferences and corporate growth objectives. Managers are encouraged to communicate transparently and adopt balanced financial policies supporting shareholder returns and sustainable reinvestment. Policymakers may also benefit from understanding how regulatory changes impact corporate payout decisions, providing a basis for more effective corporate governance frameworks.</p>

Introduction

Financial decision-making is pivotal in shaping businesses' long-term success and sustainability. Among the various financial strategies available to firms, dividend distribution and share buybacks are two fundamental methods to return value to shareholders. Both approaches aim to enhance shareholder value but differ in their underlying mechanisms and broader implications for the company's financial health, stock performance, and investor perceptions (Arenbo, 2023). Dividend distribution provides immediate returns to shareholders, offering them cash payouts based on the company's profits. This approach is commonly used by firms with stable cash flows and a long history of profitability, as it offers a predictable and steady return on investment (Lawrey et al., 2020). In

contrast, share buybacks are perceived as a strategy to increase stock prices by reducing the number of shares in circulation, thereby boosting earnings per share (Gopal et al., 2024). Companies with surplus cash but limited reinvestment opportunities often favor this process, especially when they seek to optimize stock valuation and increase shareholder wealth. The choice between these two strategies represents a critical aspect of corporate finance, as it requires a company to carefully assess both short-term and long-term implications for shareholder value maximization (Bierman, 2001). As markets evolve, businesses must make strategic decisions regarding allocating excess capital to benefit their shareholders while maintaining financial flexibility and growth potential (Almeida et al., 2016).

The decision-making process regarding dividend distribution and share buybacks is influenced by various factors, including market conditions, cash flow stability, and the company's growth prospects. Traditionally, dividends have been favored by businesses that have stable earnings and predictable cash flows (B.-S. Chen et al., 2022). Companies with a strong track record of profitability often use dividends to reassure investors and provide tangible investment returns (Suidarma & Chairunnisia, 2024). However, share buybacks have become an increasingly popular strategy, particularly among firms with excess cash reserves that may not have immediate reinvestment opportunities. This shift reflects a broader transformation within corporate finance, where companies are increasingly looking for more flexible, market-responsive strategies that allow for better shareholder value management. Buybacks can be particularly advantageous when a company believes its stock is undervalued or wishes to reduce its share base, thereby increasing earnings per share and improving stock price performance (Gopal et al., 2024). This growing preference for buybacks over dividends also aligns with the evolving nature of capital allocation strategies, where financial agility and adaptability are key to maximizing value in an ever-changing business environment. The ability of firms to make informed decisions about how best to distribute capital plays a crucial role in maintaining shareholder satisfaction and positioning the company for sustained success.

Recent studies have examined various aspects of dividend distribution and share buybacks in corporate finance. Research suggests that companies with fluctuating cash flows prefer share buybacks over dividend payments, significantly when their stock is undervalued (Bhama, 2024). Mandatory dividend distribution policies (MDDP) have positively impacted capital allocation strategies, driving increased research and development investments and capital expenditures (Mandleshwar, 2024). In the UK, firms are more likely to repurchase shares with excess cash, stock undervaluation, and lower leverage (Jamadar et al., 2024). Additionally, dividend announcements signal the market, influencing stock returns, with financial news sentiment analysis playing a critical role in forecasting market reactions to these announcements (Álvarez-Díez et al., 2024). These findings provide valuable insights into the factors driving corporate payout policies and their effect on shareholder value. Research emphasizes the growing importance of shareholder payouts across industries and regions, with more companies distributing profits through dividends and share buybacks (Valeeva et al., 2023). Studies have also explored the determinants of share repurchases, particularly in emerging markets, where corporate cash holdings are a significant influence (Saxena & Sahoo, 2023). Financial events such as equity offerings and dividend distributions can also affect market responses to share buybacks (Wang et al., 2024). In South Africa, earnings per share correlate positively with payment flexibility, while company size and economic value-added show negative correlations (Munzhelele & Obadire, 2023). These findings suggest that share buybacks serve as a flexible cash distribution tool, complementing dividends to maximize shareholder value, especially in stronger investor protection environments (Saxena & Sahoo, 2023).

Despite the significant body of research on dividend distribution and share buybacks, several gaps remain in the literature, particularly regarding integrating empirical and theoretical perspectives. While existing studies identify factors that influence the choice between dividends and buybacks, a comprehensive framework that incorporates both theoretical foundations and practical considerations is lacking. For example, many studies focus on cash flow stability and market conditions as primary determinants of these decisions. However, there is a limited exploration of how different industries or market segments respond to these strategies in varying economic climates. Moreover, while some research addresses the immediate effects of dividends and buybacks

on shareholder value, there is a lack of empirical evidence examining how these decisions align with long-term corporate strategy and growth objectives. While share buybacks are often seen as a flexible method for returning capital to shareholders, little research has been conducted on how the timing of repurchases impacts shareholder value across different market conditions. The role of investor sentiment, market volatility, and regulatory changes remains underexplored in these financial strategies. Given these gaps, a more comprehensive analysis is required to consider the short-term effects of dividends and share buybacks on stock price and shareholder returns and explore their long-term implications for company growth, investor perceptions, and strategic decision-making. This suggests a need for further research that delves deeper into how these strategies fit into broader corporate financial planning.

This study introduces a novel approach to understanding the decision-making process behind corporate strategies such as dividend distribution and share buybacks, especially in maximizing shareholder value. While previous research has focused primarily on the financial outcomes of these strategies, this study seeks to delve deeper into the often-overlooked strategic and long-term implications. By examining dividend policies and share repurchases through the lens of corporate strategy, the research uncovers how companies balance short-term financial goals with long-term value creation. It explores how these financial decisions interact with broader business strategies, including growth initiatives, market positioning, and investor relations. The unique contribution of this study lies in its systematic literature review (SLR) methodology, which not only consolidates existing findings but also identifies emerging trends and gaps in the literature. Most studies have treated dividend distribution and share buybacks as isolated financial decisions. However, this research brings a more integrated perspective by exploring the impact of these strategies on overall corporate health, including employee satisfaction, market reputation, and regulatory compliance. The study addresses the growing importance of investor sentiment and market volatility in decision-making, areas that are underexplored in the current literature. This study's primary research question is: How do companies decide between distributing dividends and repurchasing shares, and how do these decisions align with long-term strategies to maximize shareholder value? By answering this question, the study aims to provide a more comprehensive framework for understanding how businesses can navigate the complexities of these financial strategies while ensuring sustained growth and shareholder satisfaction.

Literature Review

The Agency Theory and Its Application

The Agency Theory, introduced by Jensen & Meckling (1976), emphasizes the inherent conflict of interest between shareholders and managers, where shareholders aim to maximize the firm's value, while managers may pursue personal goals, such as job security or expanding their influence (Esqueda & O'Connor, 2024). This divergence of interests often leads managers to allocate corporate resources in ways that may not align with shareholder interests, mainly when there is substantial free cash flow. Gopal et al. (2024) argue that excess cash flow without proper oversight can prompt inefficient investments or projects that offer little value to shareholders, further exacerbating agency conflicts. Within this context, dividend distribution and share buybacks mitigate such conflicts. By distributing dividends, managers reduce the available free cash flow, limiting their ability to pursue non-value-generating projects (Q. T. Tran, 2024). This approach reassures shareholders, directly providing them with returns and fostering greater trust in management decisions. On the other hand, share buybacks can serve as a signaling mechanism, with managers conveying their belief that the company's stock is undervalued and that repurchases will enhance earnings per share (EPS) and strengthen shareholder relationships (Ghosh & Sun, 2014). This reduction in outstanding shares increases EPS and demonstrates managerial confidence in the firm's prospects. However, while dividends provide immediate clarity and transparency, buybacks offer strategic flexibility, particularly during market fluctuations. The persistence of dividend payments, as highlighted by d'Udekem (2021), often appeals to long-term investors who seek stable returns, whereas share buybacks may attract investors focused on capital gains. Despite their differing mechanisms, both strategies align with the fundamental goal of maximizing shareholder value while addressing agency conflicts effectively.

Dividend distribution is often viewed as a direct mechanism to address agency problems because it provides clear and immediate returns to shareholders, reinforcing their confidence in management's use of funds. By allocating cash to dividend payouts, managers reduce the potential for inefficient spending, aligning their actions with shareholder interests (Q. T. Tran, 2024). This reduces the likelihood of managers using excess cash for low-return projects, ensuring shareholders receive tangible investment returns. According to Pathak & Gupta (2022), regular dividend payments also foster a sense of stability, which is particularly appealing to long-term investors who prioritize consistent income streams. In contrast, share buybacks offer a more flexible approach to returning capital to shareholders, as they do not require continuous payout commitment. Instead, repurchases are often used strategically, especially when stock prices are perceived as undervalued (Gopal et al., 2024). By reducing the number of outstanding shares, buybacks can increase earnings per share (EPS), boost stock prices, and signal strong financial health. This signaling effect demonstrates management's confidence in the company's future performance, strengthening the alignment between managers and shareholders (Campbell et al., 2024). However, the effectiveness of these strategies depends on market conditions and company-specific factors. While dividend payouts provide a transparent and consistent approach, share buybacks offer flexibility to respond to fluctuating market dynamics. Ultimately, when implemented effectively, both strategies serve the broader goal of mitigating agency conflicts and maximizing shareholder value.

Dividend Distribution

Dividend distribution is a key component of a company's financial strategy, functioning as a primary method for returning profits to shareholders. Depending on the company's financial policy, dividends may be cash, stocks, or unique one-time payments (Tran, 2024). Cash dividends, the most common form, involve direct payouts to shareholders based on their share ownership, signaling consistent profitability and strong financial performance. According to Pathak & Gupta (2022), companies that issue regular dividends are perceived as stable, attracting income-focused investors seeking reliable returns. This consistency sends a positive signal to the market, enhancing the firm's reputation and reinforcing investor confidence. On the other hand, stock dividends distribute additional shares to shareholders, which may appeal to investors looking for long-term capital growth (Koerniadi & Tourani-Rad, 2008). Special dividends, often declared after unexpected financial windfalls, reflect a company's willingness to share excess profits, reinforcing its commitment to shareholders (Kapons et al., 2023). Significantly, the regularity of dividend payouts correlates with a company's ability to maintain healthy cash flows and stable earnings, reinforcing its financial health (Lawrey et al., 2020). Firms with consistent earnings tend to commit to routine dividend distributions, demonstrating their financial resilience and long-term profitability. This practice strengthens investor loyalty and reduces uncertainty, as recent empirical research shows that predictable dividend payments bolster investor trust and foster a positive corporate image.

Mandatory dividend policies (MDPs) ensure that companies distribute a specified portion of their net earnings to shareholders, promoting optimal capital allocation. These policies reinforce investor confidence and signal financial stability by requiring regular payouts. Mandleshwar (2024) emphasizes that MDPs provide predictable returns to shareholders and compel companies to prioritize efficient use of remaining funds, often directing them toward productive investments such as research and development (R&D). This disciplined approach can enhance a company's long-term competitiveness by maintaining shareholder trust while investing in growth-oriented projects. However, such mandatory payouts may impose limitations on internal capital reinvestment. Vancin & Kirch (2020) highlight that companies in countries with obligatory dividend regulations often experience heightened sensitivity to cash flow fluctuations, leading to constrained investment capacity. This suggests that, although MDPs can enhance market perception, they may inadvertently restrict a firm's ability to fund innovation and expansion. Despite these challenges, consistent dividend distributions have positively influenced market valuation. Tran (2024) argues that firms with stable dividend policies achieve higher market valuations, particularly in mature industries with limited growth prospects, but profitability remains robust. Moreover, consistent dividends can mitigate agency conflicts by reducing retained earnings available for discretionary managerial use. Ben Salah &

Jarboui (2024) assert that this practice aligns management actions with shareholder expectations, as dividend commitments minimize the potential for fund misallocation.

In addition to its role as a financial strategy, dividend distribution is crucial in mitigating agency conflicts between shareholders and company management. Agency theory suggests that managers acting on behalf of shareholders may pursue personal objectives, such as securing their positions or funding projects that enhance their influence but do not necessarily increase shareholder value (Buchetti & Santoni, 2022). By distributing dividends, firms can limit the excess cash available for discretionary use, aligning managerial actions with shareholder interests. Regular dividend payments are overseen, ensuring that available resources are used efficiently and reinforcing shareholder trust in the company's governance practices (Kanojia & Bhatia, 2022). Consistent and gradually increasing dividends can foster long-term investor loyalty, particularly in low-risk sectors such as utilities and consumer goods. Companies that maintain a reliable dividend history are often perceived as stable and trustworthy, which attracts investors seeking predictable returns (Lev, 2012). This perception strengthens the company's reputation and can lead to a broader and more loyal investor base. Taher & Al-Shboul (2023) emphasize that firms with robust dividend policies experience reduced stock price volatility, as dividend payments are a stabilizing factor during market fluctuations. Industry dynamics and governance structures also shape dividend policies. Companies often emulate the dividend practices of their industry peers to maintain competitiveness and signal financial stability (Jain & Kashiramka, 2024). In this way, dividend policies serve as financial returns and strategic tools for reducing agency costs and building long-term market confidence.

Share Buybacks: Strategy and Effectiveness in Enhancing Shareholder Value

Share buybacks represent a strategic financial decision in which a company repurchases its shares from the open market to reduce the number of outstanding shares (Rahman, 2024). This reduction in share count increases earnings per share (EPS), enhancing shareholder value. Buybacks appeal to firms with surplus cash but limited high-return reinvestment opportunities. Often operating in mature industries, such firms use buybacks to signal their financial strength to investors (A. Chen & Obizhaeva, 2022). By reducing the available shares, companies also create a favorable supply-demand balance, which can increase stock prices. In addition to boosting EPS, share buybacks are frequently employed as a market signal. Buybacks indicate that management perceives the company's stock as undervalued, reinforcing investor confidence (Ndayisaba & Ahmed, 2023). However, Tran (2024) warns that while buybacks can enhance investor trust, they must be managed prudently to avoid compromising funds that could be allocated to growth-focused projects. Buybacks offer companies flexibility, unlike dividends, which require ongoing cash commitments. Anwar et al. (2018) argue that this flexibility allows firms to respond to market volatility more effectively. However, excessive reliance on buybacks can raise concerns of earnings manipulation if conducted solely to inflate EPS rather than improve operational performance. Consequently, companies must balance shareholder returns with long-term reinvestment strategies to maintain sustainable growth and avoid reputational risks.

Share buybacks play a pivotal role in enhancing shareholder value by adjusting the demand balance of shares in the market. By repurchasing shares, companies reduce the number of shares outstanding, thereby increasing earnings per share (EPS) and potentially driving stock prices upward. Gopal et al. (2024) argue that this strategy is particularly beneficial for firms with excess cash that lack high-return reinvestment opportunities, especially in mature industries. Such firms often use buybacks to signal financial strength and operational stability, reinforcing investor confidence. Anwar et al. (2018) emphasize that buybacks provide companies with flexibility compared to dividends, as they can be executed based on favorable market conditions without committing to regular payouts. This adaptability allows firms to maintain control over their capital structure, particularly during market volatility. Gupta et al. (2024) warn that buybacks can signal undervaluation to the market, they may also raise concerns about potential earnings manipulation if used solely to inflate EPS without genuine operational improvements. Tran & Tran (2023) note that in emerging markets, share buybacks can serve as a defensive mechanism to prevent stock price declines during economic uncertainty, thereby preserving shareholder wealth. Despite their benefits, buybacks require careful

implementation to avoid negative perceptions and ensure long-term value creation. Companies must balance buyback initiatives with reinvestment strategies to sustain growth while maintaining investor trust, ensuring the plan aligns with both short-term market dynamics and long-term corporate objectives.

Share buybacks offer a strategic approach to returning value to shareholders but come with potential risks and challenges. One significant risk is inefficient capital allocation, where funds that could be directed toward productive investments are instead used for repurchases that may not yield substantial benefits. Companies with excess cash may resort to buybacks to boost short-term performance metrics, potentially at the expense of long-term growth (Manconi et al., 2019). Similarly, Chahine et al. (2012) emphasize that corporate governance plays a crucial role in determining the timing and effectiveness of share repurchase programs. Poor governance can lead to buybacks prioritizing managerial interests, such as inflating earnings per share (EPS) to enhance executive compensation. In contrast, well-timed buybacks can signal confidence in the company's intrinsic value. Ndayisaba & Ahmed (2023) argue that firms often use buybacks to respond to asymmetric information, signaling to the market that their stock is undervalued. However, this signaling must be credible to avoid negative perceptions of earnings manipulation. Almeida et al. (2016) further illustrate that, in volatile markets, buybacks can act as a stabilizing mechanism, preventing drastic stock price declines and reassuring investors. Nevertheless, companies must balance shareholder returns with reinvestment strategies to ensure long-term sustainability. Transparency and sound governance are critical to implementing buyback strategies that enhance shareholder value without compromising the firm's growth potential or market reputation.

Research Design and Methodology

Study Design

This research employs a qualitative systematic literature review (SLR) approach to analyze and synthesize findings from relevant academic sources on share buybacks and their effectiveness in enhancing shareholder value. Unlike traditional reviews, the SLR approach applies a structured framework to identify, evaluate, and interpret existing studies systematically. The research aims to provide comprehensive insights by categorizing recurring themes, identifying theoretical frameworks, and mapping research gaps within corporate finance. This method critically appraises how share buybacks have been utilized as a financial strategy and their implications for corporate governance and shareholder value.

Sample Population or Research Subject

This SLR's primary subjects are peer-reviewed journal articles, books, and conference papers published between 2014 and 2024. The selected sources focus on share buyback strategies, dividend policy comparisons, agency theory, and shareholder value enhancement. These documents are drawn from reputable academic databases such as Elsevier, Wiley, Emerald, and Springer to ensure credibility and relevance. The inclusion criteria require that each study address key financial concepts related to stock repurchases, signaling effects, and governance mechanisms.

Data Collection Techniques and Instrument Development

The data collection process involves a systematic search of academic databases using specific keywords, such as "share buybacks," "dividend policy," "agency conflict," and "shareholder value." A search strategy is developed to ensure consistent and thorough identification of relevant studies. The instruments include a coding framework for classifying research findings based on categories like research objectives, methodologies, and outcomes.

Data Analysis Techniques

The data analysis process consists of thematic coding and synthesis. Each selected article is reviewed, and key findings are categorized into thematic groups, such as financial performance, market signaling, and investor behavior. This enables the identification of patterns and research

gaps. Finally, the synthesized data are interpreted to conclude the effectiveness of share buybacks as a financial strategy for enhancing shareholder value.

Findings and Discussion

Findings

Corporate financial decisions, particularly the choice between dividend distribution and share buybacks, are influenced by a diverse set of internal and external factors. Companies with stable cash flows and predictable earnings often prioritize dividends to signal financial stability and foster investor trust (Ben Salah & Jarboui, 2024). Dividend payments provide consistent returns, attracting income-focused investors who seek reliability. This strategy becomes particularly relevant in industries where firms have established long-standing reputations for financial prudence, such as utilities and consumer goods. However, companies in more dynamic sectors, such as technology or finance, may favor share repurchases due to their inherent flexibility (Rahman, 2024). Share buybacks enable firms to adjust capital distribution based on market conditions without committing to regular payouts, offering a tactical advantage during market uncertainty (Álvarez-Díez et al., 2024). Companies in mature industries with limited reinvestment opportunities often use buybacks to optimize their stock valuation and demonstrate financial strength (Bhama, 2024). However, firms must also weigh the potential risks of allocating excess cash toward buybacks rather than reinvesting in growth initiatives. Balancing these considerations requires strategic decision-making that aligns with the company's long-term objectives and short-term shareholder expectations. Additionally, companies must evaluate their competitive positioning and regulatory obligations to ensure their chosen strategy enhances market confidence and overall corporate resilience. Thus, successful capital allocation strategies must integrate market trends, investor sentiment, and corporate growth plans to create sustained value.

The impact of dividends and share buybacks on shareholder value extends beyond financial metrics, influencing investor sentiment and overall market perceptions. Regular dividend payments provide a tangible return on investment, reinforcing investor loyalty during economic downturns (Esqueda & O'Connor, 2024). By offering predictable income streams, dividends appeal to long-term shareholders and create an impression of financial stability (Valeeva et al., 2023). This perception of reliability can elevate a firm's market reputation and contribute to lower stock price volatility. Conversely, share buybacks increase earnings per share (EPS) by reducing the number of outstanding shares, often leading to increased stock prices (Chen & Obizhaeva, 2022). This practice signals that management perceives the stock as undervalued, reinforcing investor confidence and attracting capital inflows (Gopal et al., 2024). However, the effectiveness of buybacks largely depends on timing and transparency. If executed during favorable market conditions and with clear communication, buybacks can enhance shareholder trust and fortify market sentiment (Gupta et al., 2024). Conversely, if buybacks are perceived as attempts to inflate financial metrics without improving operational performance, they can undermine shareholder confidence and lead to reputational risks. Therefore, while both dividends and buybacks serve as mechanisms to maximize shareholder value, their success depends on how well they align with broader corporate strategies and market expectations.

Investor sentiment and economic volatility play significant roles in shaping corporate payout policies. During periods of market uncertainty, share buybacks often serve as defensive measures to stabilize stock prices and prevent sharp declines (Saxena & Sahoo, 2023). By repurchasing shares, companies convey confidence in their intrinsic value and reassure stakeholders of their financial strength (Campbell et al., 2024). This practice can mitigate negative market sentiment and help maintain share price stability during downturns. In contrast, dividend policies act as stabilizers that provide shareholders with steady returns, reinforcing confidence even amid fluctuating economic conditions (Kanojia & Bhatia, 2022). Dividend stability signals to the market that the company remains resilient and can generate consistent cash flow. However, abrupt changes to dividend policies, such as suspensions or reductions, can erode investor trust and trigger adverse market reactions (Anwar et al., 2018). On the other hand, share buybacks offer firms the flexibility to pause or resume purchases without the same level of investor scrutiny. This flexibility makes buybacks

particularly effective in navigating volatile markets while preserving shareholder value (Arenbo, 2023). Effective communication of payout strategies is essential to manage investor expectations and maintain market stability. Companies must ensure that their financial strategies align with their operational realities and market positioning, enabling them to navigate uncertainty with agility and sustain investor confidence.

One of the critical challenges for firms is balancing the pursuit of short-term financial gains with long-term value creation. Share buybacks can generate immediate stock price increases, benefiting shareholders seeking short-term capital gains (Chen et al., 2022). This is particularly advantageous for firms that capitalize on favorable market conditions or mitigate stock price volatility. However, excessive reliance on buybacks may limit the funds available for reinvestments in innovation, expansion, or infrastructure improvements, potentially affecting long-term competitiveness (Buchetti & Santoni, 2022). On the other hand, dividend payouts, although less likely to influence short-term stock performance significantly, contribute to a positive corporate image and foster long-term investor loyalty (Kapons et al., 2023). Firms that integrate dividend and buyback strategies can achieve a dual advantage—maintaining short-term market confidence while supporting sustainable growth through strategic reinvestments (Chen & Obizhaeva, 2022). The findings suggest that financial resilience and market leadership require a balanced approach prioritizing immediate shareholder returns alongside future growth potential. This balance is crucial in ensuring payout policies align with broader corporate goals, enhancing the company's reputation and long-term stakeholder engagement. Effective capital allocation should account for market dynamics and internal growth objectives to support consistent value creation across different economic cycles.

Dividend and buyback policies have broader implications for corporate health beyond their financial impacts. Consistent dividend payments can enhance employee morale by reinforcing the perception of economic stability and corporate reliability (Tran, 2024). Employees who perceive their organization as financially sound may exhibit higher productivity, engagement, and commitment (d'Udekem, 2021). Additionally, dividend stability can contribute to a more favorable corporate culture by aligning management practices with long-term corporate values. Share buybacks can influence external perceptions, including market reputation and stakeholder confidence (Jamadar et al., 2024). However, misusing buybacks to inflate earnings per share (EPS) without genuine operational improvements can lead to reputational risks and regulatory scrutiny (Gupta et al., 2024). Transparency and strong corporate governance ensure that financial strategies align with ethical standards and long-term corporate sustainability goals (Buchetti & Santoni, 2022). The findings emphasize that corporate payout strategies should be viewed as holistic components of broader business strategies rather than isolated financial decisions. By adopting a transparent and well-communicated approach, companies can reinforce their commitment to creating sustainable shareholder value while maintaining internal and external stakeholder trust.

The systematic literature review (SLR) highlights key research gaps and emerging trends in corporate payout strategies. One notable trend is the increased reliance on share buybacks in the technology and financial sectors, reflecting changing market preferences for capital returns (Manconi et al., 2019). However, limited studies have comprehensively examined how payout strategies differ across industries and economic conditions, particularly in emerging markets (Suidarma & Chairunnisia, 2024). Additionally, the role of investor sentiment in shaping corporate payout decisions remains underexplored despite its significant influence on market behavior during periods of uncertainty (Jain & Kashiramka, 2024). The impact of regulatory changes on dividend and buyback policies is another area that warrants further investigation (Ghosh & Sun, 2014). This study underscores the importance of future research that explores the interplay between financial strategies and non-financial outcomes, such as corporate governance, market reputation, and stakeholder engagement (Gupta et al., 2024). Addressing these gaps will enable scholars and practitioners to develop more comprehensive frameworks for understanding how corporate payout strategies influence corporate performance and shareholder value. By doing so, future research can contribute to more nuanced insights into the complexities of capital allocation, particularly in diverse economic environments and regulatory landscapes.

Discussion

The findings of this study indicate that various internal and external factors significantly influence a company's decision to choose between dividend distribution and share buybacks. From an internal perspective, cash flow stability, profitability levels, capital structure, and the company's funding requirements are the primary considerations. Companies with consistent cash flow and high profitability tend to distribute dividends regularly as a form of commitment to their shareholders. A stable dividend policy provides security and sends a positive signal regarding the company's financial stability. Additionally, regular dividend payouts are often associated with the company's resilience and management's commitment to returning profits to shareholders. On the other hand, companies with surplus cash that exceeds operational needs and limited reinvestment opportunities tend to opt for share buybacks as an alternative strategy. This approach increases earnings per share (EPS) by reducing the number of shares in circulation and signals to the market that the company's stock is undervalued, thereby strengthening investor confidence. Such signaling can enhance the company's market valuation, especially when buybacks are executed strategically during favorable conditions.

From an external perspective, market conditions, government regulations, and industry trends play significant roles in influencing corporate financial decision-making. When markets experience uncertainty, companies often adopt share buybacks to stabilize their stock prices and prevent substantial declines in value. During economic downturns or heightened market volatility, buybacks provide flexibility as they do not require the same regular financial commitments as dividends. Regulatory frameworks that govern dividend distribution and buyback practices, such as tax policies, also influence a company's preference for one strategy. In some cases, regulatory restrictions or incentives may make one approach more attractive. This study reinforces that buybacks are a flexible strategy in volatile market environments that allows companies to adapt their financial actions without binding themselves to long-term obligations. Regarding investor expectations, the findings highlight that a consistent dividend payout strengthens investor loyalty, particularly during economic uncertainty. Positive investor sentiment is shaped by the perception that the company has sound financial health and can maintain its commitment to profit distribution even in challenging times, reinforcing its reputation for reliability and resilience.

The study also underscores how companies balance their short-term and long-term financial objectives. Short-term goals, such as increasing stock prices and reinforcing capital structure, often drive buyback policies. Companies may use buybacks to quickly boost their share prices and enhance market perception, particularly in competitive markets or during periods of financial scrutiny. However, to ensure sustainable growth, companies must ensure that share buybacks do not reduce the availability of funds for long-term investments, such as research and development, market expansion, and infrastructure upgrades. Effective capital management is essential to meet short-term market expectations without compromising long-term strategic priorities. This study found that transparent implementation of share buyback strategies can foster investor trust and strengthen the company's reputation without jeopardizing its strategic investment initiatives. When executed clearly and transparently, buybacks can be a powerful tool for stabilizing stock prices and supporting investor relations while safeguarding the company's growth trajectory.

Regarding the impact on shareholder value, the findings indicate that consistent dividend distributions help build investor confidence and enhance the company's market reputation. Dividends are perceived as a reliable and direct form of shareholder return, especially by income-seeking investors who rely on steady payouts. Such payouts offer a predictable source of income, which can be particularly attractive to institutional investors, retirees, and conservative investors. On the other hand, share buybacks provide greater flexibility in capital allocation, especially for companies with substantial excess cash reserves. Buybacks allow management to return capital to shareholders without committing to a regular payout schedule, which can be advantageous during financial uncertainty. However, this study also highlights the risk that buybacks may be misused to artificially inflate earnings per share without corresponding operational improvements. Buybacks can lead to negative market perceptions and erode investor trust when used solely for cosmetic financial enhancements. Therefore, companies must maintain transparency and communicate their objectives behind buyback strategies to mitigate concerns about financial manipulation. Transparent buyback

policies can reassure investors that the company prioritizes sustainable financial performance rather than short-term market appearances. As such, balancing transparency with strategic capital management is critical in reinforcing long-term shareholder value and upholding the company's reputation for integrity and accountability.

The findings of this study align closely with relevant theories, particularly agency theory, in analyzing the strategic considerations behind dividend distribution and share buybacks. As introduced by Jensen and Meckling (1976), Agency theory highlights the inherent conflict of interest between managers, who act as agents, and shareholders, who are the principals. When given control over financial resources, managers may allocate funds in ways that serve their personal goals, such as securing job security or expanding company operations, even when these actions do not align to maximizing shareholder wealth. In this context, dividend distributions and share buybacks serve as effective control mechanisms to mitigate agency conflicts by ensuring that excess cash is directed toward shareholders rather than retained for potentially inefficient internal use. Consistent dividend payouts signal the company's commitment to returning profits to shareholders, reducing the possibility of cash being misused for non-value-adding projects. By distributing dividends, the company limits the discretionary funds available to managers, promoting a more disciplined approach to resource allocation. Similarly, share buybacks can reduce free cash flow, limiting funds that could be diverted toward unproductive investments. This reduced available cash minimizes managers' risk of opportunistic behaviors, reinforcing the alignment of interests between management and shareholders. The study's findings support the agency theory perspective by demonstrating that capital returns through dividends and buybacks foster trust between managers and shareholders.

Compared to previous studies, the findings of this research show significant alignment with the work of Bhama (2024) concerning the role of free cash flow in share buyback policies. Bhama's study emphasizes that companies with high levels of free cash flow are more inclined to implement buyback strategies as a means of optimizing capital allocation and avoiding excessive cash reserves that could be inefficiently used. This research corroborates Bhama's assertion by demonstrating that companies with surplus cash often view buybacks as a flexible mechanism to return capital to shareholders while maintaining financial agility. The findings of this study also align with Álvarez-Díez et al. (2024), who highlighted the role of dividend announcements in fostering positive market sentiment. Regular and consistent dividend payments provide a sense of security to investors, reinforcing their confidence in the company's financial health and boosting its reputation. Reinforcing investor sentiment through dividends supports the company's efforts to build long-term relationships with shareholders, particularly during periods of economic uncertainty. However, this study's findings diverge from previous studies that perceive buybacks as a short-term strategy to inflate earnings per share (EPS) without considering long-term impacts. Instead, this research emphasizes that share buybacks can be an effective long-term strategy when executed transparently and with clear objectives prioritizing shareholder value and sustainable growth. This divergence underscores the importance of evaluating buybacks within the broader context of the company's strategic goals and prevailing market conditions.

The practical implications of the findings from this research emphasize the importance of transparent and well-measured capital return policies. Companies must carefully assess their investor base and understand shareholder preferences to design an appropriate strategy through dividend distributions or share buybacks. For example, firms with a significant base of institutional investors may benefit from adopting a stable dividend policy, as consistent payouts align with the expectations of income-focused investors seeking reliable returns. Conversely, companies aiming to strengthen market confidence and signal their financial strength may utilize buybacks as a strategic tool, particularly when their stock is undervalued. Share buybacks can also be employed as a defensive mechanism to stabilize stock prices during periods of economic uncertainty or market volatility. However, to be effective, buybacks must be supported by strong fundamental performance and implemented with high transparency. Transparent communication about the purpose and expected impact of buybacks is essential to avoid perceptions of financial manipulation, which could undermine investor trust. This research underscores the importance of balancing shareholder returns with the company's long-term growth initiatives, ensuring that capital is not solely used for short-term

financial gains at the expense of strategic investments in innovation, market expansion, and operational improvements. In a broader context, these findings highlight the need for financial decision-making that prioritizes shareholder value and sustainable growth. Companies that successfully navigate this balance are more likely to maintain a competitive market position and foster long-term loyalty.

Conclusion

This study comprehensively analyzes the decision-making process behind dividend distribution and share buybacks, focusing on how companies navigate internal and external factors to maximize shareholder value. The findings underscore that companies weigh variables such as cash flow stability, profitability, market conditions, and investor expectations when choosing between dividends and buybacks. Dividend payouts were found to be associated with investor security and corporate reputation, while buybacks signal financial strength and create flexibility in capital allocation. Notably, the study highlights that both strategies require transparency and alignment with the company's long-term goals to avoid perceptions of financial manipulation and foster shareholder trust. The research addresses how firms balance short-term and long-term objectives in their capital return strategies, contributing valuable insights into the interplay between financial policy and corporate strategy.

The originality of this study lies in its holistic approach, which integrates insights from previous research while identifying underexplored areas, such as the role of investor sentiment and market volatility. The study advances academic knowledge by framing dividends and buybacks as complementary rather than mutually exclusive strategies, each serving distinct investor preferences and corporate objectives. From a practical and managerial standpoint, the findings emphasize the importance of stakeholder communication and financial transparency. Managers are advised to tailor capital return strategies to their investor base and market conditions while ensuring that buybacks and dividends align with the firm's strategic growth plans. Companies that successfully balance shareholder returns with reinvestment in growth initiatives can strengthen their market position and build lasting investor loyalty.

Despite its contributions, this study is not without limitations. The reliance on a systematic literature review (SLR) method means the findings are based on secondary data, which may not capture emerging trends or firm-specific dynamics in real time. Additionally, the study does not account for sector-specific nuances that may influence capital return decisions differently across industries. Future research should incorporate primary data, such as interviews and case studies, to provide a more nuanced understanding of decision-making processes in diverse market contexts. It would also be valuable to explore the impact of regulatory changes and evolving market sentiment on dividend and buyback policies in emerging and developed markets. By addressing these areas, future studies can build upon the findings and further enrich the discourse on corporate financial strategies aimed at shareholder value maximization.

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