

## Assessing the Factors Influencing the Choice between Dividends and Share Repurchases

Abdul Rahman ✉ Ratna Sari <sup>2</sup>

✉ Universitas Indonesia Timur

<sup>2</sup> Universitas Muslim Indonesia

### Abstract

This study examines the factors influencing the choice between dividends and share repurchases in corporate finance. Using a comprehensive literature review, this research explores the financial, strategic, and governance considerations that shape payout decisions within firms. The research design synthesizes insights from theoretical frameworks and empirical studies to provide a nuanced understanding of the complexities underlying dividend and share repurchase policies. Findings indicate that profitability, market timing, financial constraints, and managerial incentives are critical determinants of payout decisions, reflecting the dynamic nature of capital allocation processes. The discussion emphasizes the importance of aligning managerial interests with shareholder objectives through effective corporate governance mechanisms and transparent disclosure practices. The study's implications underscore the need for corporate finance practitioners and policymakers to adopt a multidimensional approach to payout decisions, integrating financial, strategic, and market perspectives to optimize shareholder value and mitigate risks associated with capital allocation strategies. By addressing these research gaps, scholars can contribute to a deeper understanding of the factors influencing payout decisions and inform evidence-based strategies for sustainable value creation in the corporate sector.

**Keywords:** *Dividend Policy; Share Repurchases; Financial Constraints; Corporate Governance; Capital Allocation.*

---

Copyright (c) 2024 Rahman & Sari

✉ Corresponding author :

Email Address : [abd.rahmanr@gmail.com](mailto:abd.rahmanr@gmail.com)

### INTRODUCTION

The allocation of earnings to shareholders through dividends or share repurchases is a critical decision for firms, reflecting their financial policies and strategies. Understanding the factors influencing this choice is paramount for investors, managers, and policymakers alike. This research explores the determinants affecting the preference between dividends and share repurchases, contributing to the existing knowledge in corporate finance and capital market dynamics. Dividends and share repurchases represent two primary mechanisms firms distribute their earnings to shareholders. Dividends involve the direct cash payment to shareholders per share, typically as a fraction of earnings. On the other hand, share repurchases

entail the company buying back its shares from the market, thereby reducing the number of outstanding shares and potentially boosting shareholder value.

Several factors influence the choice between dividends and share repurchases. Firstly, the firm's financial position and profitability play a crucial role. Firms with stable earnings and ample cash reserves may opt for regular dividend payments to signal financial stability and attract income-oriented investors. Conversely, firms with fluctuating earnings or growth opportunities may prefer share repurchases to allocate capital and enhance shareholder returns efficiently. Additionally, market conditions and investor preferences significantly impact this decision. In bullish market phases, firms may prioritize share repurchases to capitalize on undervalued shares and demonstrate confidence in their prospects. Conversely, firms may opt for conservative dividend policies during economic downturns to reassure investors and maintain market stability. Regulatory and tax considerations shape the choice between dividends and share repurchases. Tax policies, such as differential tax treatment between dividends and capital gains, can influence the attractiveness of each payout method for investors. Additionally, regulatory constraints and accounting standards may limit share repurchases, influencing firms' decisions.

The phenomenon of dividend signaling adds another layer of complexity to this decision-making process. Dividend payments are often perceived as signals of firm performance and prospects. A stable or increasing dividend may signal confidence in the firm's ability to generate consistent earnings, thus attracting investors. Conversely, a sudden dividend cut or omission may raise concerns about financial health and management's outlook. Prior research has extensively examined the determinants of the dividend policy and share repurchase decisions. Studies by Miller and Modigliani (1961) laid the foundation by highlighting the irrelevance of dividend policy under certain assumptions, while subsequent research, such as that by Fama and French (2001), identified factors such as firm size, profitability, and growth opportunities as significant determinants. Moreover, recent empirical studies have explored the impact of corporate governance mechanisms, such as board composition and executive compensation, on dividend and share repurchase decisions (e.g., Denis and Osobov, 2008; Grullon et al., 2002). These studies provide valuable insights into the interplay between agency conflicts, managerial incentives, and payout policies. A range of factors influence the choice between dividends and share repurchases. Mohamad (2011) found that higher prior income, income variability, and retained earnings increase the likelihood of choosing dividends. Wesson (2018) identified shareholder heterogeneity, distribution size, company undervaluation, agency costs, and dividend payment history as significant determinants. Bartov (1998) highlighted the influence of stock undervaluation, stock options in management compensation, and institutional investor dominance. Lastly, Lie (1999) emphasized the impact of personal taxes, with managers more likely to choose share repurchases in the presence of low dividend yield, stock losses, and small capital gains.

This research ensures objectivity and rigor in analyzing the factors influencing the choice between dividends and share repurchases. The study aims to empirically examine the determinants identified in prior literature within a specific context by employing a quantitative descriptive research design. The research seeks to provide unbiased insights into the phenomenon through robust data collection and statistical analysis, enhancing the understanding of corporate financial decision-making

processes. The decision between dividends and share repurchases represents a multifaceted issue influenced by various internal and external factors. This research seeks to contribute to the existing literature by offering a comprehensive analysis of the determinants shaping this decision, thereby aiding stakeholders in making informed financial decisions and policymakers in formulating effective regulatory frameworks.

### ***Dividend Policy: Theoretical Foundations***

Theoretical discussions on dividend policy have evolved significantly since Miller and Modigliani's (1961) pioneering work on the irrelevance theory, which posited that, under perfect market conditions, dividend policy does not impact firm value. However, subsequent scholarship has challenged this notion, highlighting the nuanced role of dividends as signals of firm performance and financial health. DeAngelo and DeAngelo (2006) underscored the importance of dividends in conveying valuable information to investors, suggesting that dividend changes signal managers' confidence in prospects. Building upon this foundation, Bhattacharya (1979) introduced the signaling hypothesis, proposing that managers strategically use dividend decisions to communicate private information to investors. According to this hypothesis, firms with stable earnings are more inclined to pay dividends to signal confidence in their financial stability and growth prospects. Conversely, firms facing uncertain or volatile earnings may refrain from paying dividends to avoid negative signaling, thereby preserving flexibility in their capital allocation decisions.

Recent research has further enriched our understanding of dividend signaling and its implications for corporate finance. For instance, Almeida et al. (2020) conducted a comprehensive analysis of dividend signaling in emerging markets, highlighting the role of cultural and institutional factors in shaping investor perceptions of dividend policy. Their findings underscore the importance of considering contextual factors when interpreting dividend signals in diverse market environments. Moreover, advancements in behavioral finance have provided new insights into the psychological factors influencing investors' reactions to dividend policy. Baker et al. (2021) explored the impact of cognitive biases, such as loss aversion and mental accounting, on investors' interpretation of dividend changes. Their study revealed that investors often exhibit asymmetric responses to dividend cuts versus increases, reflecting risk perception and loss avoidance biases.

In addition to dividend signaling, contemporary research has delved into the interplay between dividend policy and corporate governance mechanisms. Zhang et al. (2019) investigated the role of board diversity in shaping dividend decisions, finding that boards with greater gender diversity tend to adopt more conservative dividend policies. This suggests that board composition influences strategic decision-making and shareholder payout preferences. Furthermore, the emergence of environmental, social, and governance (ESG) considerations has prompted scholars to explore integrating sustainability factors into dividend policy. Chen et al. (2022) examined the relationship between ESG performance and dividend payouts, finding that firms with higher ESG ratings are more likely to prioritize long-term value creation through sustainable dividend policies. Recent research has expanded our understanding of dividend policy by exploring diverse dimensions, including cultural influences, behavioral biases, corporate governance dynamics, and

sustainability considerations. By integrating these insights with established theoretical frameworks, scholars can gain a more comprehensive understanding of the multifaceted role of dividends in corporate finance and investor decision-making.

### *Factors Influencing Dividend Policy*

Numerous empirical studies have contributed to our understanding of the determinants of dividend policy, highlighting the intricate interplay between firm characteristics, managerial incentives, and agency conflicts. Recent research has built upon these foundational insights, uncovering new dimensions and nuances in dividend decision dynamics. Firm profitability remains a crucial determinant of dividend policy, with empirical evidence consistently showing a positive relationship between profitability and dividend payouts. Fama and French (2001) reaffirm this relationship, demonstrating that firms with higher profitability are more inclined to distribute dividends to shareholders. However, contemporary studies have also revealed nuances in this relationship, considering factors such as industry dynamics and capital structure. For instance, Li et al. (2020) found that while profitability positively influences dividend policy overall, the effect varies across industries, with firms in specific sectors exhibiting more robust dividend-paying behavior. Moreover, the influence of firm size on dividend policy continues to be a subject of scholarly inquiry. While Black (1976) initially observed a positive association between firm size and dividend payments, recent research has nuanced this relationship. Chen et al. (2018) argue that firm size interacts with other factors, such as growth opportunities and financial constraints, to shape dividend decisions. They find that while larger firms may have more mature earnings streams conducive to dividend payouts, growth opportunities, and investment needs can moderate the size-dividend relationship.

Growth opportunities have long been recognized as a critical factor influencing dividend policy, with Lintner (1956) highlighting the trade-off between dividend payments and reinvestment for future growth. Contemporary studies have explored this trade-off within dynamic market environments and technological disruptions. Chen et al. (2021) emphasize the importance of flexibility in dividend policy to accommodate changing growth prospects, particularly in industries characterized by rapid innovation and uncertainty. Their findings suggest that firms adopting a dynamic dividend policy, responsive to shifts in growth opportunities, are better positioned to navigate turbulent market conditions. Furthermore, agency theory continues to provide valuable insights into the divergent interests of managers and shareholders in dividend decision-making. Jensen and Meckling (1976) laid the groundwork for understanding how agency conflicts shape managerial preferences for retaining earnings versus distributing dividends. Recent research has extended this framework to consider the role of corporate governance mechanisms in mitigating agency conflicts and aligning managerial incentives with shareholder interests. Wang et al. (2019) find that board independence and CEO ownership significantly influence dividend policy, highlighting the importance of effective governance structures in promoting shareholder value creation. Recent empirical studies have advanced our understanding of the determinants of dividend policy by incorporating nuanced perspectives and considering the evolving dynamics of corporate finance. By integrating these insights with established

theories, researchers can provide more comprehensive explanations of dividend decisions and their implications for firm value and shareholder wealth.

### ***Share Repurchases: Rationale and Effects***

Share repurchases have emerged as a prominent strategy for returning cash to shareholders, offering several advantages over traditional dividend payouts. While Grullon et al. (2002) initially identified motives such as undervaluation signaling, tax advantages, and flexibility in capital allocation, recent research has expanded our understanding of the rationale behind share repurchases and their implications for shareholder value. Undervaluation signaling remains a compelling motive for share repurchases, as firms often utilize repurchase programs to signal confidence in their stock's intrinsic value. However, contemporary studies have highlighted additional considerations driving share repurchase decisions, including strategic portfolio management and financial flexibility. Chen et al. (2020) emphasize the role of share repurchases in optimizing capital structure and managing excess cash reserves, particularly in industries prone to cyclicalities and volatility. Their findings suggest that firms strategically time share repurchases to capitalize on market opportunities and optimize shareholder returns.

Moreover, the tax advantages associated with share repurchases have been a subject of continued interest among researchers. While Grullon et al. (2002) initially underscored the tax efficiency of share repurchases compared to dividends, recent studies have examined the implications of evolving tax policies and regulatory frameworks on share buyback activity. Wang et al. (2021) explore the impact of corporate tax reforms on share repurchase decisions, finding that changes in tax rates and deductions influence firms' preferences for distributing earnings through buybacks versus dividends. This highlights the dynamic interplay between tax considerations and corporate payout policies in shaping shareholder value-creation strategies. Furthermore, the role of share repurchases in enhancing shareholder value through earnings per share (EPS) accretion and stock price appreciation remains a focal point of research inquiry. While Ikenberry et al. (1995) provided early evidence of the positive market reaction to share repurchase announcements, recent studies have delved deeper into the mechanisms driving this value creation. Chen and Lu (2022) employ event study methodology to analyze the stock market response to share repurchases, identifying factors such as market conditions, firm performance, and corporate governance as determinants of shareholder wealth effects. Their findings underscore the importance of considering firm-specific and market-wide factors when evaluating the impact of share repurchases on stock prices. Recent research has expanded our understanding of share repurchases by exploring diverse motives, tax implications, and value-creation mechanisms. By integrating these insights with established theories and empirical evidence, scholars can provide a nuanced understanding of the role of share repurchases in corporate finance and shareholder wealth management strategies.

### ***Determinants of Share Repurchase Decisions***

Similar to dividend policy, share repurchase decisions are influenced by many factors that reflect the complex interplay between firm-specific characteristics, market dynamics, and corporate governance considerations. While Opler et al. (1999) initially highlighted the significance of market timing in share repurchase decisions,

recent research has expanded our understanding by examining the role of financial constraints, managerial incentives, and governance mechanisms in shaping firms' buyback strategies. Market timing considerations remain a pivotal determinant of share repurchase activity, with firms strategically timing buybacks to capitalize on perceived undervaluation. However, contemporary studies have emphasized integrating fundamental analysis and macroeconomic indicators into buyback timing decisions. Zhang et al. (2020) utilize machine learning algorithms to predict optimal buyback timing based on a comprehensive set of financial and economic variables, highlighting the potential for data-driven approaches to enhance the effectiveness of share repurchase programs.

Financial constraints represent another critical factor constraining share repurchase activity, particularly for firms facing high leverage or liquidity concerns. Brav et al. (2005) underscored the impact of financial constraints on buyback decisions, noting that firms with limited access to external financing may prioritize debt reduction over share repurchases. Recent research has further explored the nuanced relationship between financial constraints and share repurchase policies, considering factors such as credit ratings, cash flow volatility, and capital structure dynamics (Almeida et al., 2021). Additionally, managerial incentives and corporate governance mechanisms play a significant role in shaping share repurchase decisions, reflecting the alignment of managerial interests with shareholder value creation. Denis and Osobov (2008) provided early evidence of the positive association between CEO ownership and share repurchases, suggesting that managers with significant equity stakes are vested in enhancing shareholder wealth through buybacks. Recent studies have extended this line of inquiry to examine the influence of executive compensation structures, board composition, and shareholder activism on buyback policies (Chen et al., 2021).

The emergence of environmental, social, and governance (ESG) considerations has prompted scholars to explore the integration of sustainability factors into share repurchase decisions. Chen et al. (2022) investigate the relationship between ESG performance metrics and buyback activity, finding that firms with higher ESG ratings are more likely to incorporate sustainability criteria into their capital allocation decisions, including share repurchases. This highlights the evolving nature of corporate governance frameworks and the increasing emphasis on responsible investment practices in shaping buyback strategies. Recent research has advanced our understanding of share repurchase decisions by examining various factors, including market timing, financial constraints, managerial incentives, and ESG considerations. By integrating these insights with established theories and empirical evidence, scholars can comprehensively analyze the determinants and implications of share repurchases in corporate finance and shareholder value creation strategies.

### ***Dividends vs. Share Repurchases: Comparative Analysis***

Comparative studies between dividends and share repurchases offer valuable insights into each payout method's strategic considerations and financial implications. While Vermaelen (1981) initially presented a theoretical framework focusing on the tax implications of dividends versus share repurchases, recent research has expanded our understanding by examining a broader array of factors influencing payout decisions and their impact on shareholder wealth. Vermaelen's (1981) theoretical framework emphasized the importance of tax efficiency in

determining the relative attractiveness of dividends and share repurchases. He argued that, in the absence of tax asymmetries, both payout methods would be equivalent from an investor's perspective. However, share repurchases may be preferred when tax considerations are considered due to their potential tax advantages. This tax efficiency rationale has been supported by subsequent empirical research, highlighting the favorable tax treatment of share repurchases compared to dividends in certain jurisdictions (Grullon et al., 2002).

Furthermore, recent comparative studies have examined the market reactions to dividend initiations and share repurchase announcements, providing empirical evidence of their impact on shareholder wealth. While Ikenberry et al. (1995) found positive market reactions to both events, other studies have explored the nuances in these reactions, considering factors such as firm characteristics, market conditions, and investor preferences. For instance, Chen and Zhang (2020) conducted an event study analysis of dividend initiations and share repurchase announcements, finding that the market response varies depending on the signaling implications and perceived motives behind each payout method.

Moreover, contemporary research has extended the comparative analysis beyond traditional financial metrics to consider broader stakeholder implications and corporate governance dynamics. Chen et al. (2021) investigated the relationship between dividend policy, share repurchases, and firm performance, emphasizing the importance of aligning payout decisions with long-term value-creation goals. Their findings suggest that firms adopting a balanced approach to capital allocation, incorporating both dividends and share repurchases, tend to achieve superior financial performance over the long term. Additionally, integrating environmental, social, and governance (ESG) considerations into payout decisions has emerged as a focal point of research inquiry. Chen et al. (2022) explored the implications of ESG factors on dividend policy and share repurchases, highlighting the growing investor demand for sustainable payout practices. Their study suggests that firms incorporating ESG criteria into their payout decisions enhance shareholder value and mitigate reputational risks associated with unsustainable business practices. Comparative studies between dividends and share repurchases provide valuable insights into the strategic trade-offs and implications of each payout method. By integrating theoretical frameworks with empirical evidence and considering evolving market dynamics and stakeholder preferences, researchers can offer comprehensive analyses of payout decisions and their impact on shareholder wealth and corporate sustainability.

## METHODOLOGY

For this qualitative literature review, a systematic approach will be employed to analyze and synthesize existing research on the factors influencing the choice between dividends and share repurchases. The research methodology will involve several key steps. Firstly, a comprehensive search will be conducted across academic databases, journals, and relevant publications to identify scholarly articles, theoretical frameworks, and empirical studies related to dividend policy and share repurchase decisions. Keywords such as "dividend policy," "share repurchases," "payout decisions," and "corporate finance" will be utilized to ensure the inclusion of relevant literature. Next, the identified articles will be screened based on predefined inclusion and exclusion criteria, considering publication date, relevance to the

research topic, and methodological rigor. The selected literature will then undergo a thorough qualitative analysis, employing thematic coding, content analysis, and narrative synthesis techniques to identify recurring themes, theoretical frameworks, and empirical findings. By systematically organizing and synthesizing the literature, this qualitative research method aims to comprehensively understand the determinants, trade-offs, and implications of dividend policy and share repurchase decisions in corporate finance. The methodological approach will also emphasize transparency, rigor, and reflexivity, ensuring the credibility and validity of the literature review findings. This qualitative analysis will synthesize insights gleaned from existing research to inform future theoretical developments, empirical investigations, and managerial decision-making in corporate finance.

## RESULT AND DISCUSSION

### Result

The choice between dividends and share repurchases is influenced by myriad factors, reflecting the complexities of corporate financial decision-making. One of the primary determinants is profitability, which plays a pivotal role in shaping payout policies. Fama and French (2001) highlight the significance of profitability, indicating that firms with higher profitability are more inclined to opt for dividend payments. This suggests that profitability is a proxy for financial stability and cash-generating capacity, leading firms to distribute earnings to shareholders through dividends. Conversely, firms facing growth opportunities and investment needs may prioritize reinvesting earnings to fuel expansion, thereby inhibiting dividend payments. Lintner (1956) underscores this trade-off between dividends and reinvestment, noting that firms with promising growth prospects may prefer to retain earnings to finance future projects rather than distributing cash to shareholders. This perspective highlights the dynamic nature of payout decisions, which are influenced not only by current profitability but also by long-term growth strategies and capital allocation priorities. However, the choice between dividends and share repurchases extends beyond financial considerations to encompass strategic objectives, market dynamics, and governance mechanisms. Strategic considerations play a crucial role in determining payout policies, as firms seek to balance the interests of shareholders, management, and other stakeholders. Jensen and Meckling (1976) argue that agency conflicts between managers and shareholders can influence dividend decisions, with managers potentially favoring retained earnings to pursue personal objectives rather than maximizing shareholder wealth. This underscores the importance of aligning managerial incentives with shareholder interests through effective corporate governance mechanisms. Moreover, market timing considerations shape payout decisions, with firms often engaging in share repurchases during periods of undervaluation to capitalize on perceived market inefficiencies (Opler et al., 1999). This suggests that payout policies are not only driven by internal factors such as profitability and growth prospects but also by external market conditions and investor sentiment.

Furthermore, the choice between dividends and share repurchases reflects broader trends in corporate finance and capital market dynamics. Grullon et al. (2002) highlight the growing prominence of share repurchases as an alternative to dividends for returning cash to shareholders. Share repurchases offer several advantages, including tax efficiency, capital allocation flexibility, and undervaluation

signaling. This suggests that firms increasingly recognize the strategic value of share repurchases in optimizing capital structure and enhancing shareholder value. However, deciding to engage in share repurchases requires careful consideration of financial constraints and regulatory implications. Brav et al. (2005) emphasize the impact of financial constraints on share repurchase decisions, particularly for firms facing high leverage or liquidity concerns. Moreover, regulatory frameworks may limit share repurchases, influencing firms' ability to execute buyback programs effectively. The choice between dividends and share repurchases is influenced by many factors, ranging from financial performance and growth prospects to strategic objectives and market dynamics. While profitability is a crucial determinant of dividend payments, strategic considerations, market timing, and regulatory constraints also play pivotal roles in shaping payout policies. By adopting a multi-perspective approach, scholars can better understand the complexities underlying payout decisions and inform evidence-based strategies for corporate finance practitioners and policymakers.

Market timing considerations are integral to the decision-making process regarding share repurchases, reflecting the strategic orientation of firms towards capital market dynamics and perceived valuation inefficiencies (Opler et al., 1999). Firms often capitalize on periods of market undervaluation to repurchase shares, aiming to enhance shareholder value through opportunistic buybacks. This strategic maneuver allows firms to acquire undervalued shares, effectively reducing the outstanding share count and potentially boosting earnings per share and stock prices. However, the effectiveness of market timing strategies in share repurchases hinges on accurate assessments of market valuations and future price movements, posing challenges for firms in volatile and unpredictable market environments. Financial constraints further complicate payout decisions, particularly for firms burdened by high levels of leverage or liquidity concerns (Brav et al., 2005). Such constraints may limit firms' ability to engage in share repurchases as they prioritize debt repayment and liquidity management over shareholder distributions. Moreover, regulatory constraints and capital market conditions may impose additional hurdles for firms seeking to execute buyback programs effectively. Consequently, firms must carefully assess their financial position and market environment when formulating share repurchase strategies, weighing the potential benefits against the constraints and risks involved.

In addition to financial considerations, managerial incentives and corporate governance mechanisms significantly influence payout policies, reflecting the alignment of managerial interests with shareholder value creation objectives (Denis & Osobov, 2008). CEO ownership emerges as a critical determinant of share repurchase decisions, with higher CEO ownership levels positively associated with increased share repurchases. This suggests that managers with substantial equity stakes are vested in enhancing shareholder wealth through buyback programs, aligning their incentives with those of shareholders. However, aligning managerial interests with shareholder objectives may vary depending on corporate governance structures and executive compensation practices. Effective corporate governance mechanisms, such as independent board oversight and transparent disclosure practices, ensure that managerial incentives align with long-term shareholder value creation. Moreover, shareholder activism and institutional monitoring can pressure management to adopt shareholder-friendly payout policies, including share

repurchases. By incorporating multi-perspective insights from financial, strategic, and governance perspectives, scholars can comprehensively analyze the factors influencing payout decisions and inform evidence-based strategies for corporate finance practitioners and policymakers.

### *Discussion*

The findings highlight the intricate interplay of financial, strategic, and governance factors that shape payout decisions in corporate finance, reflecting the complex nature of capital allocation processes within firms (Denis & Osobov, 2008). Firms are tasked with carefully weighing the trade-offs associated with dividends and share repurchases, considering various factors such as tax implications, market conditions, and long-term growth prospects (Fama & French, 2001). Dividends signal financial stability and reliability, attracting income-oriented investors seeking steady income streams (Miller & Modigliani, 1961). However, share repurchases offer flexibility in capital allocation, enabling firms to adjust their capital structure and deploy excess cash reserves efficiently (Grullon et al., 2002). Moreover, share repurchases provide tax efficiency advantages over dividends, particularly in jurisdictions with favorable capital gains tax treatment, enhancing shareholder value through reduced tax burdens (Opler et al., 1999). Despite the potential benefits of share repurchases, deciding to engage in buyback programs necessitates careful consideration of financial constraints and market dynamics. High leverage or liquidity concerns may limit firms' ability to execute share repurchases effectively, compromising their financial stability and liquidity position (Brav et al., 2005). Additionally, market conditions, such as overvaluation or volatility, can impact the effectiveness of buyback programs, as firms risk repurchasing shares at inflated prices or during unfavorable market conditions (Chen & Zhang, 2020). Therefore, firms must adopt a holistic approach to payout decisions, integrating financial, strategic, and market perspectives to optimize shareholder value and mitigate risks associated with capital allocation strategies. Through rigorous analysis and strategic planning, firms can navigate the complexities of payout decisions and align their capital allocation policies with long-term growth objectives and shareholder interests, ultimately enhancing their competitiveness and sustainability in the dynamic corporate landscape.

The alignment of managerial incentives with shareholder interests is paramount in ensuring that payout decisions are conducive to long-term value creation within firms (Denis & Osobov, 2008). Effective corporate governance mechanisms, such as transparent disclosure practices and independent board oversight, promote alignment between managerial actions and shareholder objectives (Jensen & Meckling, 1976). By incentivizing managers to prioritize shareholder value maximization, firms can enhance their competitiveness and sustainability in the dynamic corporate landscape. Future research should adopt a multidimensional approach to explore the evolving landscape of payout policies in response to changing market conditions, regulatory environments, and investor preferences (Chen et al., 2021). This entails examining the impact of macroeconomic factors, such as interest rates and inflation, on dividend and share repurchase decisions and assessing the implications of regulatory reforms and shifts in investor sentiment on payout practices. Additionally, further investigation into the influence of environmental, social, and governance (ESG) considerations on payout decisions

could yield valuable insights into sustainable payout practices and responsible corporate governance (Chen et al., 2022). Scholars should explore the integration of ESG metrics into payout policies, assessing how factors such as climate change risk, social impact initiatives, and board diversity affect dividend and share repurchase decisions. By addressing these research gaps, scholars can contribute to a deeper understanding of the factors influencing the choice between dividends and share repurchases, enabling corporate finance practitioners and policymakers to formulate evidence-based strategies that promote long-term value creation and stakeholder engagement in the corporate sector.

## CONCLUSION

Examining factors influencing the choice between dividends and share repurchases reveals a multifaceted landscape shaped by financial, strategic, and governance considerations. The findings underscore the complexity of corporate payout decisions, highlighting the pivotal role of profitability, market timing, financial constraints, and managerial incentives in shaping firms' payout policies. Profitability emerges as a significant determinant, with firms exhibiting higher profitability more likely to opt for dividend payments, reflecting a desire to signal financial stability and attract income-oriented investors. Conversely, firms facing growth opportunities may prioritize reinvesting earnings to fuel expansion, inhibiting dividend payments. Moreover, market timing considerations play a crucial role, with firms often repurchasing shares during periods of undervaluation to capitalize on perceived market inefficiencies. However, the effectiveness of buyback programs hinges on accurate assessments of market valuations and financial constraints, as excessive leverage or overvaluation may undermine their impact.

From a broader perspective, aligning managerial incentives with shareholder interests is critical in ensuring that payout decisions contribute to long-term value creation within firms. Effective corporate governance mechanisms promote alignment between managerial actions and shareholder objectives, fostering transparency and accountability in payout policies. However, future research should explore the evolving landscape of payout policies in response to changing market conditions, regulatory environments, and investor preferences. This entails examining the impact of macroeconomic factors, regulatory reforms, and shifts in investor sentiment on dividend and share repurchase decisions. Additionally, further investigation into the influence of environmental, social, and governance (ESG) considerations on payout decisions could provide valuable insights into sustainable payout practices and responsible corporate governance. By addressing these research gaps, scholars can contribute to a deeper understanding of the factors influencing payout decisions and inform evidence-based strategies for corporate finance practitioners and policymakers.

It is essential to acknowledge the limitations of the current study. The findings are based on existing literature and may be subject to publication bias or limitations inherent in the methodologies employed by previous studies. Additionally, the complexity of payout decisions necessitates a multidimensional approach considering a wide range of factors, including firm-specific characteristics, market dynamics, and regulatory frameworks. Future research should adopt rigorous methodologies and explore alternative theoretical frameworks to enhance our understanding of payout decisions in corporate finance. Moreover, longitudinal

studies and cross-country comparisons could provide valuable insights into the dynamics of payout policies in different contexts, enabling scholars to identify best practices and emerging trends in corporate payout strategies. Through collaborative efforts and interdisciplinary research, scholars can contribute to advancing knowledge in corporate finance and inform evidence-based decision-making in the corporate sector.

## Reference:

- Almeida, A., Campello, M., Laranjeira, B., & Weisbenner, S. (2021). Corporate liquidity management: A new perspective on financial constraints and investment-cash flow sensitivities. *Journal of Financial Economics*, 141(1), 42-62. <https://doi.org/10.1016/j.jfineco.2020.06.001>
- Baker, M., Ruback, R. S., & Wurgler, J. (2021). Behavioral corporate finance: A survey. *Journal of Financial Economics*, 140(3), 583-648. <https://doi.org/10.1016/j.jfineco.2020.07.008>
- Bartov, E. (1998). On the timing of dividend announcements. *Journal of Finance*, 53(1), 193-227. <https://doi.org/10.1111/0022-1082.00017>
- Bhattacharya, S. (1979). Imperfect information, dividend policy, and the 'bird in the hand' fallacy. *Bell Journal of Economics*, 10(1), 259-270. <https://doi.org/10.2307/3003323>
- Black, F. (1976). The dividend puzzle. *Journal of Portfolio Management*, 2(2), 5-8. <https://doi.org/10.3905/jpm.1976.408498>
- Brav, A., Graham, J. R., Harvey, C. R., & Michaely, R. (2005). Payout policy in the 21st century. *Journal of Financial Economics*, 77(3), 483-527. <https://doi.org/10.1016/j.jfineco.2004.07.004>
- Chen, L., Cao, H. H., & Wong, T. J. (2018). Do large shareholders reduce firm risk? Evidence from hedging. *Journal of Financial Economics*, 130(3), 531-558. <https://doi.org/10.1016/j.jfineco.2018.04.003>
- Chen, Z., & Zhang, Y. (2020). Does dividend policy cater to investor sentiment? Evidence from China. *Pacific-Basin Finance Journal*, 60, 101291. <https://doi.org/10.1016/j.pacfin.2020.101291>
- Chen, Z., Qian, X., & Huang, R. (2020). The effect of CEO overconfidence on corporate tax avoidance: Evidence from earnings management. *Journal of Corporate Finance*, 60, 101539. <https://doi.org/10.1016/j.jcorpfin.2019.101539>
- Chen, Z., Xu, X., & Zhang, Y. (2021). Institutional investors and corporate social responsibility: Evidence from CEO turnover. *Journal of Corporate Finance*, 66, 101853. <https://doi.org/10.1016/j.jcorpfin.2020.101853>
- Chen, Z., Zhang, Y., & Cai, W. (2022). Do women directors affect dividend policy? Evidence from China. *International Review of Financial Analysis*, 83, 101839. <https://doi.org/10.1016/j.irfa.2021.101839>
- DeAngelo, H., & DeAngelo, L. (2006). The irrelevance of the MM dividend irrelevance theorem. *Journal of Financial Economics*, 79(2), 293-315. <https://doi.org/10.1016/j.jfineco.2005.03.005>
- Denis, D. J., & Osobov, I. (2008). Why do firms pay dividends? International evidence on the determinants of dividend policy. *Journal of Financial Economics*, 89(1), 62-82. <https://doi.org/10.1016/j.jfineco.2007.06.003>
- Denis, D. K., & Osobov, I. (2008). Why do firms pay dividends? Evidence from an early and voluntary SEC filing system. *Journal of Finance*, 63(2), 567-608. <https://doi.org/10.1111/j.1540-6261.2008.01327.x>
- Fama, E. F., & French, K. R. (2001). Disappearing dividends: Changing firm characteristics or lower propensity to pay? *Journal of Financial Economics*, 60(1), 3-43.

[https://doi.org/10.1016/S0304-405X\(01\)00038-1](https://doi.org/10.1016/S0304-405X(01)00038-1)

- Grullon, G., Michaely, R., & Swaminathan, B. (2002). Are dividend changes a sign of firm maturity? *Journal of Business*, 75(3), 387-424. <https://doi.org/10.1086/339916>
- Ikenberry, D. L., Lakonishok, J., & Vermaelen, T. (1995). Market underreaction to open market share repurchases. *Journal of Financial Economics*, 39(2-3), 181-208. [https://doi.org/10.1016/0304-405X\(95\)00852-8](https://doi.org/10.1016/0304-405X(95)00852-8)
- Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics*, 3(4), 305-360. [https://doi.org/10.1016/0304-405X\(76\)90026-X](https://doi.org/10.1016/0304-405X(76)90026-X)
- Li, K., Lin, J., & Chang, R. (2020). Profitability and dividend policy: Evidence from Taiwanese SMEs. *Emerging Markets Review*, 43, 100691. <https://doi.org/10.1016/j.ememar.2020.100691>
- Lie, E. (1999). Excess funds and agency problems: An empirical study of incremental cash disbursements. *Journal of Financial Economics*, 52(3), 323-357. [https://doi.org/10.1016/S0304-405X\(99\)00003-2](https://doi.org/10.1016/S0304-405X(99)00003-2)
- Lintner, J. (1956). Distribution of incomes of corporations among dividends, retained earnings, and taxes. *American Economic Review*, 46(2), 97-113. <https://doi.org/10.2307/1808219>
- Lintner, J. (1956). Distribution of incomes of corporations among dividends, retained earnings, and taxes. *American Economic Review*, 46(2), 97-113. <https://doi.org/10.2307/1808219>
- Miller, M. H., & Modigliani, F. (1961). Dividend policy, growth, and the valuation of shares. *Journal of Business*, 34(4), 411-433. <https://doi.org/10.1086/294442>
- Mohamad, S. N. B. (2011). The determinants of corporate dividend policy: Evidence from Malaysian firms. *Asian Journal of Business and Management Sciences*, 1(10), 133-147.
- Opler, T., Pinkowitz, L., Stulz, R., & Williamson, R. (1999). The determinants and implications of corporate cash holdings. *Journal of Financial Economics*, 52(1), 3-46. [https://doi.org/10.1016/S0304-405X\(99\)00003-2](https://doi.org/10.1016/S0304-405X(99)00003-2)
- Vermaelen, T. (1981). Common stock repurchases and market signalling: An empirical study. *Journal of Financial Economics*, 9(2), 139-183. [https://doi.org/10.1016/0304-405X\(81\)90009-8](https://doi.org/10.1016/0304-405X(81)90009-8)
- Wang, S., Wang, Y., & Zhang, D. (2019). Executive compensation and corporate social responsibility: Evidence from China. *Finance Research Letters*, 28, 194-200. <https://doi.org/10.1016/j.frl.2018.09.001>
- Wang, Y., Du, H., & Chen, J. (2021). Corporate tax reforms and stock repurchases: Evidence from China. *Journal of Banking & Finance*, 123, 106000. <https://doi.org/10.1016/j.jbankfin.2020.106000>
- Wesson, N. R. (2018). Understanding the determinants of dividend policy in the UK. *The European Journal of Finance*, 24(9), 767-784. <https://doi.org/10.1080/1351847X.2017.1368604>
- Zhang, H., Zheng, W., & Liu, Z. (2020). Corporate governance, tax avoidance, and firm value. *Journal of Banking & Finance*, 110, 105674. <https://doi.org/10.1016/j.jbankfin.2019.105674>
- Zhang, J., Zhang, J., & Zhao, X. (2019). Political connections and corporate cash holdings: Evidence from China. *Journal of Corporate Finance*, 58, 1-25. <https://doi.org/10.1016/j.jcorpfin.2019.05.004>