

Effect Of Share Repurchase Programs on Shareholder Wealth: A Systematic Literature Review

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Abstract:

Stock buybacks, or share repurchase programs, are a corporate financial tool that has been an increasingly significant and influential financial approach to maximising shareholder wealth and capital allocation. The trend in firms in both developed and emerging economies over the last few decades has been that the companies have favoured repurchases to the traditional dividend payouts because it is more flexible, more effective in terms of taxes, and may lead to better earnings per share (EPS) and market value. The paper provides a systematic literature review of how share repurchase programs impact on shareholder wealth by providing a synthesis of key theoretical and empirical work published between 2000 and 2026. The PRISMA framework is used to ensure that the relevant studies are selected in a structured and transparent manner in the leading databases like Scopus, Web of Science, Google Scholar and the ScienceDirect. The results show that buyback announcements tend to have a positive short-term abnormal return which are indicative of positive investor responses and reflective of the effects. But the long-term evidence of shareholder wealth creation is still mixed and varies on the basis of undervaluation, financial position, quality of governance, market environment and the objective of repurchases. Another important effect of buybacks as indicated in the review is the enhancement of EPS, the optimisation of capital structure, reduction of agency cost, and the replacement of dividends. Besides, periods of crisis, like the Global Financial Crisis and the COVID-19 pandemic, made substantial impacts on the behaviour of repurchase. Generally, the research finds that share buyback programs can boost stockholder wealth provided they are adopted in a strategic manner and in combination with good corporate fundamentals. The paper has contributed to the literature by defining research gaps and providing future direction of the researchers, investors, managers and policymakers.

Keywords: Share Repurchase Programs, Stock Buybacks, Shareholder Wealth, Capital Allocation, Earnings Per Share (EPS), Abnormal Returns, Dividend Substitution

1. Introduction

Stock buyback, also referred to as share repurchase programs, has emerged as a significant financial policy of companies to increase their shareholder wealth by decreasing outstanding stock, boosting earnings per share (EPS) and as an indication of management belief in company worth (Bonaimé & Kahle, 2024; Chemmanur, Cheng, Zhang & Wu, 2022). Buybacks are gaining popularity as an alternative to dividends because they are flexible, and may be tax efficient, in companies operating in major markets, including United States, United Kingdom and India (Bonaimé & Kahle, 2024; Chen & Obizhaeva, 2022; Saxena, & Sahoo, 2022). Theoretically, buybacks are advocated by Signalling Theory, Agency Theory and Market Timing Theory which propose that repurchases can signal undervaluation, minimise excess cash misappropriation and can be used to optimise capital structure (Abraham, Harris, & Auerbach, 2018; Almeida, Fos & Kronlund, 2016; Barger & Farrell, 2021). Empirical literature tends to support positive short-term stock price changes after the announcement of repurchases, but long-term wealth changes are inconsistent and hinge on the market environment, the quality of governance, and the underlying company fundamentals (Ding, Koerniadi & Krishnamurti, 2020; El Ghoul, Guedhami, Kim & Suh, 2024; Rozycki & Suh, 2019). With the trend of increasing buyback activity worldwide, there has been growing concern among investors, corporate management and regulators about whether repurchase programs do generate sustainable shareholder wealth and thus a systematic review of research in the field is of relevance and necessity (Chen & Obizhaeva, 2022; Saxena, & Sahoo, 2022).

Table 1: Summary of Key Studies on Share Repurchase Programs and Shareholder Wealth

S. No.	Author(s) & Year	Title of Study	Journal	Research Focus	Key Findings
1	Alderson, Halford & Sibilkov (2020)	An examination of the wealth effects of share repurchases on bondholders	Journal of Corporate Finance	Impact of share repurchases on bondholders and wealth redistribution	Share repurchases may benefit shareholders but can create mixed effects for bondholders due to increased leverage and risk transfer.
2	DeLisle, Morscheck & Nofsinger (2020)	Share repurchases and wealth transfer among shareholders	The Quarterly Review of Economics and Finance	Wealth transfer effects among different classes of shareholders	Repurchases may transfer wealth between selling and continuing shareholders depending on timing and valuation.
3	Rozycki & Suh (2019)	Share repurchases: analysing short-term and long-term wealth effects	Managerial Finance	Short-term and long-term shareholder wealth impact	Positive short-term abnormal returns observed, while long-term gains remain mixed across firms.
4	Abraham, Harris & Auerbach (2018)	Determinants and consequences of share repurchase decisions	Modern Economy	Motives behind buyback decisions and outcomes	Firms repurchase shares due to undervaluation, excess cash, and EPS improvement motives; outcomes vary by firm conditions.
5	Saxena & Sahoo (2022)	Share repurchase: a review of the literature	International Journal of Indian Culture and Business Management	Comprehensive review of buyback literature	Existing literature supports positive market reaction, but long-term value creation depends on governance and market efficiency.
6	Almeida, Fos & Kronlund (2016)	The real effects of share repurchase	Journal of Financial Economics	Operational and real economic effects of repurchases	Repurchases can influence investment policy, capital allocation, and long-term corporate decisions.
7	Miller & Prondzinski (2017)	Stock repurchases: Do they add to shareholder value over time?	Journal of Accounting and Finance	Long-term shareholder value creation	Buybacks may add shareholder value when supported by strong earnings and strategic execution.

1.1. Background of Share Repurchase Programs

Share repurchase programs, also called share buybacks, is a company action whereby a corporation buys back outstanding shares of its own stock but not including new shares of its stock to its current stockholders via the open market, tender offer, or other accepted procedures. Repurchases can boost earnings per share (EPS), enhance return on equity, and are likely to enhance market valuation by lowering the number of shares outstanding. Buybacks are thought of as an additional way of giving back excess cash to shareholders as opposed to the conventional dividend payments (Bonaimé & Kahle, 2024; Saxena & Sahoo, 2022). Open-market repurchases constitute most buyback deals in most developed markets and so they are one of the most popular payout strategies in the modern corporate (Mietzner, 2017).

Share buybacks have recorded impressive growth all over the world since the late twentieth century, particularly following regulatory liberalisation in leading economies like United States, United Kingdom, and Japan. In the United States, buybacks were rapidly expanded once SEC Rule 10b-18 availed a regulatory safe harbor in 1982, making buybacks a mainstream payout tool. Recent data indicates that the global share buybacks were at an all-time high of about 1.31 trillion among the largest global listed companies, almost equalling the dividends of 1.39 trillion, which clearly reflects the increasing share of repurchases in the payout policy of the shareholders. In 2024, the amount of buybacks by S&P 500 companies was a record of 942.5 billion alone, and in 2025, it is projected to be more than 1 trillion.

Many companies are now favouring buyback to dividends because of a number of reasons. To begin with, repurchases offer more financial flexibility since they are not accompanied by an anticipation of recurrence payments as compared to dividends. Second, buybacks are tax-effective in certain jurisdictions, because the shareholders may only make gains upon selling the shares. Third, the managers usually repurchase as a way of indicating that the company shares are underestimated, thus enhancing investor confidence and share prices. Fourth, outstanding shares can be lower and this will improve the EPS and other valuation ratios, which will make the financial performance to look stronger (Ali, 2024; Aris, Aidi, Jais & Anuar, 2021). Lastly, buybacks enable companies to best manage their capital structure by returning surplus cash in cases where profitable investment opportunities are scarce (Abraham, Harris, & Auerbach, 2018; Almeida, Fos & Kronlund, 2016). Share repurchase programs have been made a popular corporate payout strategy in global capital market due to these benefits.

1.2. Importance of Shareholder Wealth

Shareholder wealth is among the greatest concepts in corporate finance because it is the ultimate goal of business organisations to maximise the worth of investments by owners. The maximisation of wealth is based on raising the market value of the shares and bring greater returns to the investors in terms of dividends and capital gains. A business that continually increases shareholder wealth will have an increased investor confidence, access to capital markets and a superior corporate image. It also demonstrates effective managerial decision-making in the aspects like investment, financing and dividend policy. Growth in earnings per share (EPS), profitability, good corporate governance, and strategic expansion are some of the factors that lead to creation of shareholder wealth (Ali, 2024; Andriosopoulos & Lasfer, 2015; Miller & Prondzinski, 2017). Furthermore, companies, which focus on shareholder wealth, are more likely to be sustained in the long-term, competitive and create value in volatile markets (Farooq, Rehman, Khan & Bilal, 2017). Thus, shareholder wealth is one of the important indicators of corporate performance and success.

1. **Primary Objective of Financial Management:** The maximisation of shareholder wealth is regarded as the ultimate goal of contemporary corporate finance since it is concerned with the advancement of the total market value of the company and higher returns to the shareholders.
2. **Capital Gains for Investors:** Increased shareholder wealth is noted in terms of increased share prices which allow investors to make capital gains when they dispose their shares to the market at a higher market price.

3. **Improvement in Earnings Per Share (EPS):** Increased profitability and effective financial judgments enhance EPS, which can be frequently attractive to investors and can positively affect the company stock performance.
4. **Enhanced Stock Valuation and Market Reputation:** Companies that generate shareholder wealth on a regular basis tend to have a higher valuation of their stock, enhanced investor trust, and reputation in the capital markets.
5. **Long-Term Sustainability and Investment Attraction:** Strategic investments and competitive advantage make wealth-maximising companies more attractive to new investors, raise capital easily, and promote long-term growth.

1.3. Problem Statement

Share repurchase programs have become a popular corporate practice in returning excess cash to shareholders and increasing the value of the firm; nevertheless, the current literature reveals a range of inconsistent and sometimes contradictory results on the reality of their effects on shareholder wealth creation (Bargeron & Farrell, 2021; Ding, Koerniadi & Krishnamurti, 2020; Rozycki & Suh, 2019). A number of studies indicate positive short-term abnormal returns after the announcement of buybacks indicating that repurchases indicate that the stock is undervalued and enhances investor confidence. Other studies, however, claim that the long-term payoffs of buybacks are insecure, short-term, or non-material especially when they are employed to artificially inflate earnings per share (EPS) or executive compensation agenda (El Ghoul, Guedhami, Kim & Suh, 2024; Kothari & Venkat, 2023). Moreover, buybacks have uneven impacts on different countries, industries, market, and regulatory settings, which brings inconsistency in empirical studies. This consensus gap underscores the need to conduct a systematic review to critically examine previous studies and ascertain whether share repurchase programs does provide sustainable shareholder wealth.

1.4. Research Objectives

- To systematically review the existing theoretical and empirical literature on share repurchase programs and their impact on shareholder wealth across different markets and time periods.
- To analyse the relationship between share repurchase activities and key shareholder wealth indicators such as stock price performance, earnings per share (EPS), capital gains, and firm valuation.
- To identify research gaps, conflicting findings, and future directions in the literature in order to provide useful insights for researchers, investors, corporate managers, and policymakers.

1.5 Research Gap Analysis

Despite the growing body of literature on share repurchase programs, several gaps remain in understanding their overall impact on shareholder wealth. First, a large proportion of previous studies have concentrated on the short-term market reaction to buyback announcements, particularly abnormal stock returns around announcement dates, while relatively limited attention has been paid to long-term shareholder wealth creation. Second, empirical findings regarding the effectiveness of share repurchases remain inconsistent, with some studies reporting positive long-term value creation and others suggesting neutral or negative outcomes depending on firm characteristics, governance quality, and market conditions. Third, most existing studies focus on specific countries or individual markets, limiting the generalisability of findings across developed and emerging economies. Fourth, recent developments such as the COVID-19 pandemic, evolving corporate governance practices, and changing regulatory frameworks have significantly influenced corporate payout policies, yet these factors have not been comprehensively synthesised within a unified review framework. Finally, there is a lack of recent systematic literature reviews that integrate theoretical perspectives, empirical evidence, crisis-period behaviour and shareholder wealth outcomes into a single comprehensive analysis.

1.6 Need for the Study

The increasing use of share repurchase programs by corporations worldwide has generated considerable debate among investors, policymakers, and researchers regarding their effectiveness in enhancing shareholder wealth.

While share buybacks are widely viewed as a mechanism for improving earnings per share, signalling undervaluation, and optimising capital structure, concerns remain regarding their long-term sustainability and potential misuse for short-term financial engineering. Given the fragmented and sometimes contradictory nature of existing findings, there is a need for a systematic review that critically evaluates the available evidence and identifies the conditions under which buybacks contribute to shareholder wealth creation. Such a review is particularly relevant in light of the substantial growth in repurchase activity across global markets and the increasing regulatory scrutiny of corporate payout policies.

1.7 Unique Contribution to Existing Body of Knowledge

This study contributes to the existing literature in several ways. First, it provides a comprehensive systematic literature review of share repurchase programs and shareholder wealth by synthesising evidence from studies published between 2000 and 2026. Second, it integrates multiple theoretical perspectives, including Signalling Theory, Agency Theory, Pecking Order Theory, Market Timing Theory, and Dividend Substitution Theory, to provide a holistic understanding of buyback behaviour. Third, the study consolidates findings from both developed and emerging markets, enabling broader insights into the effectiveness of repurchase programs across different economic environments. Fourth, it examines the impact of crisis periods such as the Global Financial Crisis and the COVID-19 pandemic on repurchase decisions and shareholder outcomes. Finally, the study identifies key research gaps and proposes future research directions, thereby providing a useful reference framework for researchers, investors, corporate managers, and policymakers interested in corporate payout strategies and shareholder value creation.

2. Theoretical Foundation

Several key theories of corporate finance underpin the choice to implement share repurchase programs and why companies tend to repurchase their own stock and the potential impact of such decisions on shareholder wealth. These theories offer a conceptual framework of how managers may have motives, how they decide on capital allocation and how market reacts when buyback is announced (Chen & Obizhaeva, 2022; Ding, Koerniadi & Krishnamurti, 2020).

Sakinç (2017) found that the American ideology of maximising shareholder value has expanded into European corporate governance. This trend has manifested as a mechanism of "value extraction," occurring directly at the expense of long-term investments in productive resources, research and development, and employment. Although open-market share repurchases in Europe remain concentrated within a smaller cluster of firms and are executed more sporadically than in the U.S., the combined volume of European dividends and buybacks relative to net income now mirrors American payout levels, potentially heightening the continent's long-term economic vulnerability.

When corporate managers use cash to buy back shares and boost their stock price, they are choosing short-term market rewards over the future of the planet and the community. Aggressive stock buybacks can shrink the budget needed for green innovations and social welfare. There is a need to start looking closely at whether companies are using buybacks to make short-term financial gains at the expense of real, long-term sustainability (Khatib, 2024).

2.1. Signalling Theory

One of the most acceptable theories of corporate share repurchase is Signalling Theory. This theory is founded on the idea of information asymmetry, in which the managers and insiders have better and more up-to-date information about the real financial situation of the company, its potential to earn, growth prospects, and inherent value of the market than the external investors do. As external stakeholders and market users cannot fully access internal information, they tend to use the managerial actions as hints to read the real value and future of the company. Here, a share buyback announcement is an excellent positive indication of the management to the market.

The managers might choose to repurchase shares in the market when they feel that the company shares are underpriced or at a lower intrinsic value than they ought to be. When the management buys its own shares with

company funds, it shows that the management is certain that the current market value of the business is not the true value of the business. This will send a signal to investors that the company will record improved future profitability, consistent cash flows, and better growth opportunities. Due to this, investors tend to perceive the announcement of repurchases positively, which in turn causes a rise in the demand of the stock, and a favourable response in the market.

Signalling hypothesis is often supported by empirical research in corporate finance that finds abnormal positive returns in the period just prior to an announcement of buyback programs. Shareholders would feel that the management would not commit a lot of corporate funds to buy back the shares without being sure of the financial and future performance of the company. Thus, buybacks can help the market to decrease uncertainty, enhance investor confidence and boost confidence in the management decisions.

The signalling Theory applies especially in times of a temporary fall in stock prices, market volatility or undervaluation due to external influences and not poor company fundamentals. Repurchases can enable correction of market mispricing and confidence among shareholders in situations like these. The success of the signal, however, is determined by the credibility of the management, financial ability of the firm and the continuity of the performance following the repurchase announcement.

All in all, the Signalling Theory clarifies that share repurchase programs are not necessarily payouts, but a strategic communication where management expresses optimism about the intrinsic value of the company, future earnings and future growth potential, and ultimately enhances the creation of shareholder wealth.

2.2. Agency Theory

The Agency Theory is a significant practice in corporate finance, which states how the owners of the corporation, shareholders, and the managers, who are hired to manage the business on their behalf, relate to each other (El Ghoul, Guedhami, Kim & Suh, 2024). The separation of ownership and control in the contemporary corporations, therefore, causes conflict of interest where managers are likely to act in their own interests instead of acting in the best interest of the shareholders. The maximisation of firm value and the long-term creation of wealth is usually the objective of shareholders, but managers at times have the goal of maximising personal gains in the form of increased compensation and job security, empire building, prestige, or unwarranted growth of the business. These antagonistic interests form what is referred to as agency problem.

A significant cause of agency conflict arises when companies have large amounts of free cash flow which is the amount of left-over cash after covering all the potentially profitable investment and operating needs. When this excess cash is held in the company, managers might not utilise it efficiently by investing in projects that do not give high returns or projects that are not profitable or by buying unwanted assets, expanding the company to a level that is not optimal or by raising discretionary spending. This kind of abuse of resources may minimise profitability, undermine the performance of operations and eventually devastate shareholder wealth (Almeida, Fos & Kronlund, 2016; DeLisle, Morscheck & Nofsinger, 2020; Hsu, Fung & Chang, 2016).

Share buyback plans are an effective tool towards minimising agency issues because it enables companies to inject surplus cash to its stockholders directly. With surplus funds distributed via buybacks, the level of free cash flow that the managers are free to dispose of decreases, consequently reducing chances of wasteful expenditure or managerial self-interest. This brings about increased financial discipline and compels the management to be more stringent and effective in future investment choices. In a study focusing on the alignment of financial and accounting policies, Lobo, Ashok, and Wu (2020) investigate how firms utilise share repurchases and conditional conservatism to restrict managerial misuse of free cash flow. Their empirical results demonstrate a significant negative association between the frequency of stock buybacks and conservative reporting practices, confirming that returning capital to shareholders reduces the monitoring burden on accounting policy. Furthermore, this substitute effect intensifies in high free-cash-flow environments but is notably mitigated by long CEO tenure. These findings highlight that highly entrenched executives have a lower propensity to deploy these dual mechanisms to protect shareholder value.

Moreover, share buybacks have the ability to coordinate managerial efforts with those of shareholders. Increased share repurchases will cause earnings per share (EPS) and return on equity to increase, which can raise the value of the stock. Managers can be motivated to concentrate on decisions that increase firm value in the long run, particularly managers whose compensation is tied to stock performance. Buybacks also may be an indication that the management is determined to allocate its funds efficiently instead of holding a lot of cash.

Another theory that is related to the Agency Theory is the Agency Theory which implies that a repurchase program can be used to enhance corporate governance by enhancing accountability and cutting down on the idle resources available in the company. Buybacks can be regarded as a positive move by investors who think that the company cannot find any other more lucrative investment and that the management is repaying to the owners their money in a responsible manner.

Altogether, according to the Agency Theory, share repurchase programs can be used to address the conflict of interest between managers and shareholders because they decrease the amount of free cash flow that can be wasted inefficiently, deter wasteful expenditures on capital allocation, and encourage the maximisation of shareholder wealth (Almeida, Fos & Kronlund, 2016; DeLisle, Morscheck & Nofsinger, 2020; Hsu, Fung & Chang, 2016). Thus, buybacks can be considered as a good governance mechanism to improve the efficiency and value of firms.

2.3. Pecking Order Theory

Pecking Order Theory is an established theory in corporate finance, which describes the way companies rank the various sources of financing in investment and payout decisions. The theory was developed by Stewart C. Myers and Nicolas Majluf and it mentions that companies usually attempt to finance their operations with internal sources first, then debt financing and only issue new equity as the third option. The existence of this hierarchy is due to the fact that internal funding means lower transaction costs, fewer regulatory requirements, and less information asymmetry in contrast to external sources of finance. External financing is often more expensive or less attractive than managers because they tend to have superior information on the value of the firm and its future.

This theory shows that retained earnings and internally generated cash flows are the best sources of finance since they can be utilised instantly without the need to incur flotation expenses, interest payments or dilution of ownership. Debt is the second resort in cases where internal funds are not enough and the least desirable is to issue new shares since it can be interpreted as overvaluation, existing ownership is diluted, and unfavourable market responses. Thus, companies are likely to be over-reliant on internal sources of funds to invest and make strategic choices.

Applied to a share repurchase program, Pecking Order Theory can be used to explain the reasons why companies engage in buybacks when they have an excess of internal funds that can be invested profitably. A company may still have excess liquidity when it has a strong operating cash flow and when it has already funded all its positive net present value projects. The management can decide to give the excess cash to shareholders by repurchasing shares as opposed to letting the excess cash to go to waste or investing in ventures that are not profitable. It is a decision that is efficient in allocating capital.

The fact that share repurchases are made using this theory means that the company is financially sound, profitable, and can create a considerable amount of internal cash. Buybacks can also be used to show that the management has no need to raise external capital in unnecessary situations when the existing funds are more than the operational and investment needs. The beneficial impact of diluting shares is to boost the earnings per share (EPS), maximise the capital structure, and, possibly, increase shareholder value.

In addition, Pecking Order Theory implies that companies with steady cash flows and less growth prospects tend to implement repurchase programs since they lack as many lucrative business areas to invest (Abraham, Harris, & Auerbach, 2018; Almeida, Fos & Kronlund, 2016; Dhanani, 2016). Buybacks are, therefore, common to mature firms to effectively redistribute excess capital.

In general, the theory of Pecking Order elucidates that when the internal financial strength is high and there are few profitable investment opportunities, share repurchase programs are likely to occur. Instead of turning to

outside funding sources or holding surplus cash on the balance sheet, companies rely on buybacks as a productive approach to deploying internally generated capital and promote shareholder wealth creation.

2.4. Market Timing Theory

Market Timing Theory is a significant theory in corporate finance, which implies that managers make financing and payout decisions based on the current market value of shares of the company. This theory states that corporate managers pay close attention to the situation in the stock market and compare the current market price of the shares of the firm with the estimated intrinsic or fundamental value of the firm. Because managers usually have a better knowledge of future profits, business opportunities, and company performance, they can tell when the company shares are underpriced or overpriced by the market. On the basis of this analysis, they synchronise corporate activities including share issuance, debt issues or repurchase of shares to maximise shareholder value.

Market Timing Theory, in relevance to the share repurchase programs, suggests that companies repurchase shares of their own when they suspect that the stock is underpriced. When market prices fall as a result of temporary economic uncertainty, a market overreaction, industry wide pessimism, or short-term volatility, managers can view the shares as underpriced despite good company fundamentals. When this happens, repurchasing shares will enable the company to repurchase shares at a comparatively lower price which may favour other shareholders.

The firm can buy the shares at a low price, thereby reducing the number of outstanding shares by acquiring shares at a low price, which will in effect the firm is investing in an asset that the management perceives to be underpriced. It can result in gains in terms of earnings per share (EPS), return on equity and subsequent stock performance. Such buybacks are usually viewed by investors as an indication that the management believes in the long-term outlook of the company and this can have a positive impact on the market sentiment and the price of the stock.

On the other hand, the Market Timing Theory also implies that companies can evade repurchase programs whenever they can see that the shares are overvalued. Under these conditions, repurchasing overpriced shares with corporate funds would not be an effective resource utilisation and might decrease the wealth of shareholders (Andriosopoulos & Lasfer, 2015; Barger & Farrell, 2021; Pradhan & Kasilingam, 2018). Rather, the managers can save cash or invest in productive projects, or even new equity as long as the market conditions are favourable. Timing is hence an important consideration in the value of repurchases.

The theory can be especially applicable when the market is in a downturn or experiencing a price correction, where more fundamentally strong companies can capitalise on the discounted prices. Effective market timing will involve proper managerial judgement in terms of intrinsic value as well as future recovery of the market. Nonetheless, in case of wrong valuation levels by the management, buybacks can end up failing to generate anticipated benefits.

Altogether, the Market Timing Theory clarifies that share buybacks are calculated moves that are informed by the market mispricing. Managers can maximise long-term shareholder wealth by repurchasing shares when the price is low relative to intrinsic value and selling when the price is high to achieve the maximum value in an efficient allocation of capital and timing based on value.

2.5. Dividend Substitution Theory

Dividend Substitution Theory is a relevant theory in corporate finance that expounds the share buyback programs as alternative ways of distributing profits to shareholders as an alternative to the conventional cash dividends (Bonaimé & Kahle, 2024; Chen & Obizhaeva, 2022; Saxena, & Sahoo, 2022). According to this theory, two common payout mechanisms adopted by firms as dividends or buybacks in distributing excess earnings include dividends and buybacks. Whereas dividends are periodic cash payments to the shareholders, share buybacks enable a firm to repurchase its own outstanding shares in the market thus giving cash back to the investors indirectly in terms of an increased share value and concentration of ownership.

In past, dividends were regarded to be the major form of rewarding shareholders. Nonetheless, over the past few decades most companies have moved towards buyback programmes due to the flexibility of repurchases compared to dividend obligations. When a company starts to pay regular dividends, its investors will tend to believe that the same will continue or go up as time goes by. Any decrease or discontinuation of dividends can be seen as such in the market and can cause a decrease in investor confidence. Share repurchase programs on the other hand are voluntary and can be initiated, cut, delayed or even terminated at the discretion of the financial situation of the company and the market without generating the same amount of backlash.

Tax efficiency is another argument in favour of the Dividend Substitution Theory. In certain jurisdictions the dividends are taxed as income when received by shareholders, but the gains on the sale of shares are usually not realised as capital gains until shareholders sell their shares. This could enable shareholders to pay no or lower capital gains tax depending on the tax laws. This means that repurchases may in certain cases offer a more efficient after-tax repayment, as opposed to ordinary dividend payments.

Share buybacks have strategic financial advantages as well. Repurchases can result in higher earnings per share (EPS), higher returns on equity, and even higher market valuation by lowering the number of outstanding shares. Existing shareholders will possibly have a rise in ownership percentage and subsequent right to company earnings. This renders buybacks enticing to companies aiming to compensate shareholders and, at the same time, enhance financial performance.

The Dividend Substitution Theory is especially applicable to the mature companies whose cash flows are constant and their opportunities to make profitable investments are few. Such firms might choose to do quarterly buyback rather than holding excess cash on hand or committing to constant dividend growth, which would maintain financial flexibility and still provide a payout on excess cash.

Nevertheless, dividends or buybacks are determined by corporate goals, investor preference, tax regulations, and market factors. There are also investors who are inclined to constant dividend earnings, and those to capital gains in buybacks (Chen & Obizhaeva, 2022).

In general, the Dividend Substitution Theory describes that the share repurchase programs have been a new and a strategic replacement of traditional dividends. They allow companies to distribute wealth to the shareholders in a flexible, tax efficient, and value adding way without losing control over future payout obligations and financial resources.

This paper takes the systematic literature review (SLR) methodology to critically analyse the body of knowledge available on the effect of share repurchase programs on shareholder wealth. To find, analyse and synthesise relevant academic literature, a systematic and transparent review procedure was used. The methodology helps to be objective, reproducible and to cover previous studies in the area of corporate finance.

2.6 Theoretical Framework

The present study is grounded in five major corporate finance theories that explain the motivations behind share repurchase programs and their potential influence on shareholder wealth. Signalling Theory suggests that share repurchases communicate management's confidence regarding the intrinsic value of the firm, thereby generating positive market reactions. Agency Theory argues that buybacks reduce excess free cash flow available for managerial discretion and align managerial actions with shareholder interests. Pecking Order Theory explains repurchases as an efficient use of surplus internal funds when profitable investment opportunities are limited. Market Timing Theory proposes that managers initiate repurchases when they perceive shares to be undervalued relative to their intrinsic value. Dividend Substitution Theory views buybacks as an alternative mechanism for distributing excess cash to shareholders while maintaining financial flexibility.

Collectively, these theories indicate that share repurchase programs may influence shareholder wealth through several channels, including stock price appreciation, earnings per share enhancement, capital structure optimisation, reduction of agency costs, and improved market valuation. Based on these theoretical perspectives,

shareholder wealth is considered the dependent outcome, while share repurchase programs represent the primary explanatory factor.

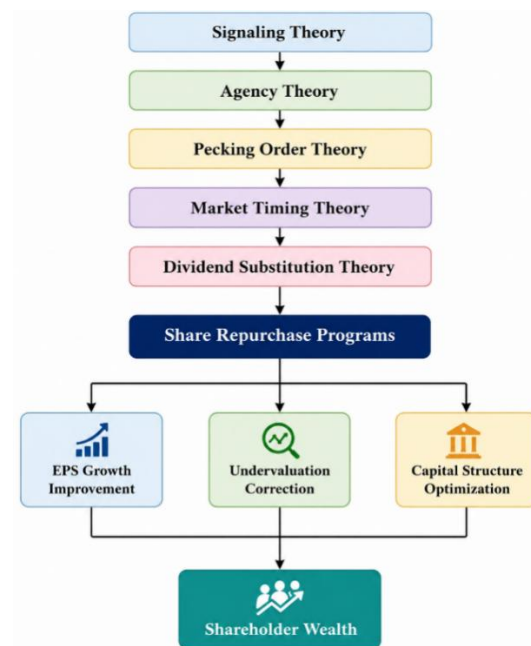


Figure 1: Theoretical Framework of Share Repurchase Programs and Shareholder Wealth

3. Systematic Literature Review Method

The current review is grounded in the Preferred Reporting Items on Systematic Reviews and Meta-Analyses (PRISMA) framework which is popular in conducting rigorous and transparent literature review. PRISMA offers a systematic procedure that includes recognising and screening, the eligibility evaluation and ultimately inclusion of the studies. With this framework, the review reduces the selection bias and only high-quality and relevant studies are reviewed.

3.1. Databases Used

To obtain comprehensive and reliable literature, studies were collected from leading academic databases recognised for finance and business research. The databases used include:

- Scopus
- Web of Science
- Google Scholar
- ScienceDirect

These sources were selected because they provide access to peer-reviewed journal articles, conference papers, review studies, and high-impact finance publications.

3.2. Inclusion Criteria

To maintain consistency and relevance, the following inclusion criteria were applied:

- Studies published between 2000 and 2026
- Peer-reviewed journal articles and high-quality conference papers
- Publications in the English language

- Studies related to finance, economics, corporate governance, or shareholder wealth
- Empirical or theoretical research focusing on share repurchase programs, stock buybacks, or payout policy

3.3. Exclusion Criteria

The following studies were excluded from the review:

- Duplicate records across databases
- Non-English publications
- Editorial notes, book reviews, dissertations, and unpublished manuscripts
- Studies unrelated to share repurchase programs or shareholder wealth
- Articles lacking sufficient methodological rigor or incomplete data

3.4. Screening Process

The PRISMA flow structure was used in the screening. First, all the pertinent records were located in search of databases by using keywords such as share repurchase, stock buyback, shareholder wealth, firm value and payout policy. In the first stage, duplicate records were eliminated. Relevance was subsequently determined by reviewing titles and abstracts. Detailed scrutiny of full-text articles of shortlisted studies in view of the inclusion and exclusion criteria was performed. Studies that passed all quality and relevance criteria were only retained to be analysed.

PRISMA Flow Stages:

1. Identification of records
2. Removal of duplicates
3. Title and abstract screening
4. Full-text eligibility review
5. Final inclusion of studies

Identification Stage	Records Identified through database Searches (Scopus, Web of Science, Google Scholar, Etc)	850
	Additional records identified through references and searches	75
	Total Records Identified	925
	Duplicate records removed	95
	Records after duplicate removed	830
Screening Stage	Titles and abstracts screened	680
	Records excluded as irrelevant	520
	Full text and articles assessed for eligibility	70
Eligibility Stage	Full Text and articles excluded	
	Not english articles 10	36
	Inadequate Methodology 20	
	Unrelated Outcomes 6	
	Studies included in qualitative review	34
	Studies included in final systematic review	34

Figure 2: PRISMA Flow Diagram of Study Selection Process for the Systematic Literature Review

3.5. Final Sample of Studies

The resultant sample comprised of high-quality studies that directly indicated the relationship between share repurchase programs and shareholder wealth after the screening and eligibility evaluation. The analysis of these studies revealed prevailing themes, research approaches, theoretical framework, important findings, inconsistencies, and research prospects. The last sample offers a solid foundation to comprehend the impact of buyback programs on the shareholder value in various markets and at various times.

3.6 Bibliometric Performance Analysis

To provide additional insights into the intellectual structure and research trends of share repurchase programs and shareholder wealth, a descriptive bibliometric performance analysis was conducted based on the final sample of 34 studies included in the systematic review. The analysis focuses on publication trends, leading authors, contributing countries, prominent journals, and frequently occurring keywords. Such an assessment helps identify the evolution of research in the field and the major themes explored by scholars.

3.6.1 Publication Trend Analysis

The distribution of studies across the review period indicates growing scholarly interest in share repurchase programs, particularly after 2015. Increased market adoption of stock buybacks and growing concerns regarding shareholder value creation have contributed to the rise in academic publications.

Table 2: Publication Distribution by Period

Period	Number of Studies
2015–2017	9
2018–2020	10
2021–2023	9
2024–2026	6
Total	34

The literature demonstrates sustained academic interest in share repurchases, with notable growth during the post-2018 period.

3.6.2 Most Influential Authors

Several researchers have made repeated contributions to the study of share repurchases and shareholder wealth.

Table 3: Leading Authors in the Review Sample

Author	Number of Contributions
Almeida et al.	2
Saxena & Sahoo	2
Chen & Obizhaeva	2
Bonaimé & Kahle	2
Others	1 each

A relatively small group of scholars has consistently contributed to advancing knowledge regarding buyback policies and shareholder wealth effects.

3.6.3 Country-wise Research Contribution

The United States dominates the literature owing to its mature capital markets and widespread use of share repurchase programs.

Table 4: Major Contributing Countries

Country	Number of Studies
United States	12
China	5
United Kingdom	4
India	4
Malaysia	3
Others	6

3.6.4 Leading Publication Sources

Research on share repurchases is concentrated within leading finance and corporate governance journals.

Table 5: Major Journals Publishing Share Repurchase Research

Journal	Number of Articles
Journal of Corporate Finance	3
Journal of Financial Economics	2
Managerial Finance	2
Financial Management	2
Journal of Banking & Finance	2

3.6.5 Keyword Frequency Analysis

The dominant keywords highlight the close association between repurchase activities, shareholder wealth creation, firm valuation, and corporate payout policies.

Table 6: Most Frequently Occurring Keywords

Keyword	Frequency
Share Repurchase	22
Shareholder Wealth	18
Stock Buybacks	16
Firm Value	12
Earnings Per Share	11
Corporate Governance	8
Dividend Policy	7

3.6.6 Keyword Co-occurrence Themes

Analysis of keyword relationships reveals three major thematic clusters:

Cluster 1: Wealth Creation and Firm Value

- Share Repurchase
- Shareholder Wealth
- Stock Returns
- Firm Value

Cluster 2: Corporate Governance and Agency Issues

- Corporate Governance
- Agency Theory
- Free Cash Flow
- Managerial Incentives

Cluster 3: Payout Policy and Capital Structure

- Dividend Policy
- Capital Structure
- Payout Policy
- Financial Flexibility

Interpretation:

The co-occurrence of keywords suggests that share repurchase research is primarily centered on wealth creation, governance mechanisms, and corporate payout decisions.

4. Share Repurchase Drivers And Wealth Effects

The overall effect of share repurchase programs on shareholder wealth is via a number of financial and strategic avenues. The level of wealth creation is determined by the managerial motives, market conditions, firm fundamentals and the perception of investor. Buybacks can have an influence on shareholder value in the following mechanisms (Chen & Obizhaeva, 2022; Andriosopoulos & Lasfer, 2015).

4.1. Stock Price Reaction to Buyback Announcements

The most broadly researched areas of share repurchase programs in corporate finance are stock price reaction to buyback announcements. The market usually reacts positively when a firm declares its plan to buyback its outstanding shares since investors view the move as an indication that the management feels that its shares have been underestimated. signalling Theory says that the corporate managers are better informed of the actual financial status of the company, its growth potential and future earning prospects, compared to external investors. Thus, repurchase announcement is often perceived as a demonstration of managerial faith in the inseparable value of the company.

In most instances, investors would assume that the management would not purchase back shares with the company money, unless they were certain that the prevailing market price was lower than the fair price. Such a perception enhances the demand of the stock by investors and the stock prices rise immediately. A large body of empirical literature in both developed and emerging markets has reported positive abnormal returns around the announcement of buyback programs. Evidence of event studies often demonstrates that companies have positive cumulative abnormal returns (CAR) during a few days after the announcement date, meaning that shareholders

become wealthier in the short-term (Bhargava & Agrawal, 2015; Chong, Annuar & Zariyawati, 2015; Pradhan & Kasilingam, 2018; Rozycki & Suh, 2019).

The other reason why the market reacted positively was the anticipation of better financial ratios following the repurchase. Because buybacks lower the number of outstanding shares, earnings per share (EPS), return on equity, and ownership concentration can be enhanced despite the net income being held constant. These changes will be perceived by investors as signs of better future performance, which also contributes to the increase in stock prices.

Buyback announcements also show that the business has enough cash reserves and financial power that it can be used to pay the capital to shareholders. This may boost market confidence particularly when the buyback is made when the stock prices are falling temporarily or there is uncertainty in the market. In this case, the investors can perceive the buyback as a stabilising measure indicating that the management is optimistic of recovery in the future.

Yet, the intensity of stock price response differs based on a number of variables including firm size, the repurchase technique, the management credibility, market, and market regulation. As the firm with consistent profitability and good governance announce repurchases, stronger reactions are usually experienced. On the other hand, the positive response is not always guaranteed when investors are afraid that buybacks are simply a way to artificially boost EPS or conform to executive compensation goals.

The reaction of the stock price to buyback announcements in general indicates that the share repurchases can generate shareholder wealth in the short-term, through the enhancement of investor sentiment, the indications of undervaluation, and the demand of shares in the company. This is a short-term market reaction that is continuing to be one of the most compelling empirical appeals in support of repurchase programs as a value-adding corporate action.

4.2. Earnings Per Share (EPS) Improvement

One of the most common mentioned financial gains of share repurchase programs is the improvement of Earnings Per Share (EPS) (Abraham, Harris, & Auerbach, 2018; Ali, 2024; Aris, Aidi, Jais & Anuar, 2021; Miller & Prondzinski, 2017). EPS is the amount of net profit of a company that can be attributed to each outstanding share of stock and is determined by dividing the net income available to common stockholders by the number of outstanding shares. As it is common knowledge that most investors, analysts and financial institutions rely on EPS to determine the profitability and performance of a company, any increase in this value can have a huge impact on the market perception and shareholder wealth.

In the case of a company buying back its own shares, the number of outstanding shares in the market is reduced. When the net earnings of the company stay the same or keep on increasing, then the same amount of profit is spread over fewer shares leading to an increase in the EPS. To illustrate, in case a firm has a profit of 100 crore, and the number of outstanding shares amounts to 10 crore, its EPS is 10. Assuming that the company buys back 2 crore shares and that the earnings do not change, EPS increases to 12.50. This mathematical implication makes buybacks a very appealing measure to companies that want to increase per-share performance measures.

An increase in EPS may generate a good impression on the investors since the ratio indicates a greater profitability and effective capital management. EPS is an important basis on which many market players value stocks, compare firms and make investment decisions. Higher EPS can result in increased investor confidence, an interest in the firm, and a stock price increase. Consequently, shareholder wealth can be enhanced by capital appreciation and an improvement in market valuation.

Other important valuation ratios that can be enhanced by EPS growth by repurchases include the price-to-earnings (P/E) ratio when share prices are not regulated at the time of repurchase. This can enhance the appeal of the company compared to the competitors. Moreover, better EPS may have a positive impact on the credibility of the executives, analysts recommendations and institutional investor interest, particularly in the case of buybacks that are implemented with a good performance of operations.

Nevertheless, care should be taken to tell the difference between the actual EPS growth based on an improvement in profits and the mechanical EPS growth through the simple reduction of shares outstanding. When a company relies on too much debt or redirects resources to productive investments just to raise the EPS, the long term gain can be restricted. The investors are becoming more conscious on whether sustainable earnings, good strategy and good cash flows support the growth of EPS.

Buybacks have a significant effect on EPS, especially in the case of mature companies with stable income and a large amount of surplus cash. Repurchases allow such companies to maximise capital structure and shareholders to be rewarded. Conversely, growth oriented companies might find it more attractive to reinvest their profits in growth than repurchasing shares.

In general, one of the key ways in which share repurchase programs can increase shareholder wealth is by improving the EPS. Buybacks decrease the outstanding number of shares and, therefore, boost the per-share earnings, investor confidence, and, potentially, enhance stock valuation. However, this strategy will be effective in the long run only when the growth of EPS indicates the actual economic value creation and not merely financial engineering in the short-term.

4.3. Undervaluation Correction

One of the most significant strategic reasons of share repurchases programs is undervaluation correction. It arises when corporate managers feel that the shares of the company are being sold in the market at a price below the actual intrinsic or fundamental value. Intrinsic value tends to indicate the true value of a company by considering its earning potential, assets, growth prospects, cash flows, competitive position and long term prospects. Nonetheless, share prices can be below this fair value due to temporary market inefficiency, an extraneous reaction by investors, economic uncertainty, a negative mood, or a downturn in the industry. The management in such cases can employ the share repurchases as a means of correcting the market mispricing (Andriosopoulos & Lasfer, 2015; Bargerion & Farrell, 2021; Chong, Annuar & Zariyawati, 2015; Vaupel, Bendig, Fischer-Kreer & Brettel, 2023).

The managers are usually better placed in terms of in-house knowledge of the firm operations, future earning prospects, and future projects and future direction than the external investors. Once they find that the market has underestimated the company, issuing a buy back is a good indication that the management believes in the true value of the firm. Repurchase announcements are perceived by investors as an indicator that the stock is inexpensive compared to the fundamentals, which may cause a rise in market demand and an increase in prices.

The buy-back of shares at low value levels produces direct financial gains to the shareholders continuing with the company. As the company repurchases shares at a lower value than their intrinsic value, the remaining shareholders are left holding ownership in the business where the value of the shares per share could be higher in the long run. Each share outstanding is a greater claim on future earnings, dividends, and net assets as the number of outstanding shares decreases. In case the market realises the actual worth of the firm later, then shareholders can gain capital gains.

Correction of undervaluation occurs especially when there is a general market downturn, a temporary slowdown in the economy or a downturn in the industry of a particular firm and where the underlying strengths of a company may be unfairly reflected in the reduction of stock value. Repurchases in those situations may be a good use of excess cash as compared to investing in low-paying projects or sitting idle reserves. Buybacks can also stabilise the prices of stocks by providing more demand in the market.

The success of this strategy however, is dependent on the capability of the management to correctly determine intrinsic value. When managers exaggerate the value of firms and buy shares at overpriced rate, the wealth of shareholders could be diminished instead of increasing. Thus, buybacks that involve undervaluation are best employed when they are backed by good fundamentals, good governance and good capital allocation.

Generally, the idea of undervaluation correction is that the share repurchase programs can uplift the shareholder wealth when companies repurchase shares at lower prices than the actual value. Repurchases are a powerful value-

creating tool over the long term by correcting market mispricing, enhancing the ownership of the remaining shareholders, and promoting future price growth.

5. Literature Review Themes

Literature on share repurchase programs has evolved in a number of broad themes that explain the effects of buyback on shareholder wealth under various market conditions, industries, and time horizons. The previous literature discusses not only the immediate market response, but also the long-term value impact, as well as investigating the quality of governance, payout policy, and crisis behavior, and cross-country variations. The summarised findings of the existing research are the most important and are summarised in the following thematic review.

5.1. Share Repurchase Announcement and Abnormal Returns

Among the few unanimous results in the literature is that share repurchase announcements produce positive abnormal stock returns in the short run. Buyback announcements are usually seen as a sign of undervaluation, financial stability and confidence of the management by investors. Cumulative abnormal returns (CAR) around the announcement date are often measured using event study methods and statistically significant gains during the event window have been reported in many studies.

Table 7: Short-Term Market Reaction to Buyback Announcements

Aspect	Common Finding
Event Window	-5 to +5 days
CAR Trend	Positive
Investor Perception	Undervaluation signal
Immediate Effect	Rise in stock price
Shareholder Impact	Short-term wealth gain

5.2. Long-Term Shareholder Wealth Effects

Whereas the short-term responses are usually positive, the long-term wealth impacts are diverse. To evaluate the post-buyback performance in 1-3 years, researchers tend to rely on Buy-and-Hold Abnormal Returns (BHAR) or long-run abnormal returns. Other studies report long-term performance, particularly when companies buy back underpriced shares, others show neutral or poor long-term returns (Ding, Koerniadi & Krishnamurti, 2020; Chong, Annuar & Zariyawati, 2015; Rozycki & Suh, 2019).

Stock buybacks actually push companies to act more like financial investors rather than traditional businesses. Companies use buybacks to please the market and ride the wave of positive investor sentiment, but this ends up locking up their cash and creating budget constraints. This problem gets worse during times of high economic uncertainty or when outside auditors aren't keeping a close eye on the books. These buybacks, especially those meant for executive reward programs, encourage companies to chase quick financial wins rather than focusing on long-term growth (Ren, Zheng & Ailikamujiang, 2024).

Table 8: Long-Term Wealth Effect Evidence

Measure	Findings
1-Year BHAR	Moderate positive in many cases
3-Year BHAR	Mixed results

Mature Firms	Better outcomes
Overpriced Buybacks	Weak returns
Strong Governance Firms	Better long-run performance

5.3. EPS Enhancement vs Real Wealth Creation

Buyback can lower the outstanding shares and as a result, it can raise mechanically the Earnings per share (EPS). Nonetheless, literature has differentiated between cosmetic growth in EPS and the true creation of value. Buybacks can generate actual shareholder wealth when they are funded by surplus cash and are transacted at a low price. When employed simply to increase accounting ratios, the results can be short-lived.

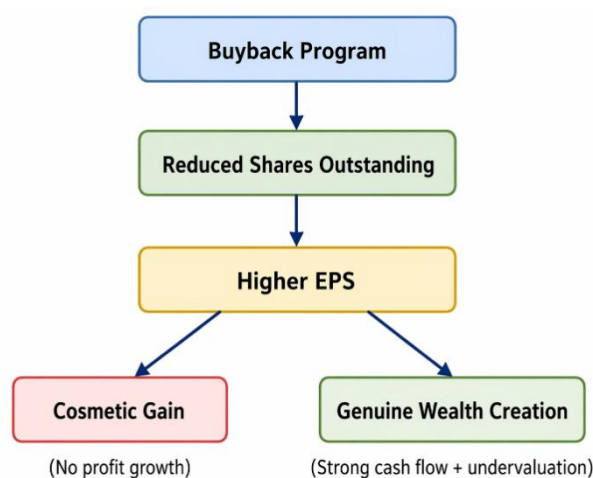


Figure 3: EPS Enhancement vs Real Value Creation

5.4. Buybacks and Dividend Policy Relationship

Numerous research studies are on whether repurchases are substitutes or complements of dividends. Companies are more and more adopting buybacks as a less predictable form of dividend than usual payouts do since dividends generate expectations (Bonaimé & Kahle, 2024; Chen & Obizhaeva, 2022; Saxena, & Sahoo, 2022). Other companies are maintaining constant dividends with buybacks as a tool of surplus cash.

Table 9: Buybacks vs Dividends

Basis	Buybacks	Dividends
Flexibility	High	Low
Regular Commitment	No	Yes
Tax Efficiency	Often favourable	Depends on tax law
Market Signal	Undervaluation	Stable cash flow
Usage	Surplus cash return	Regular income payout

5.5. Share Repurchases During Crisis Periods

In times of economic crises, companies tend to cut or discontinue buybacks in order to maintain liquidity. But financially sound companies can still make purchases at a time when stocks have tumbling prices.

Global Financial Crisis

The Global Financial Crisis had a significant impact on buyback activity because most companies were constrained by credit and because of uncertainty.

COVID-19 Pandemic

Many companies halted purchases during the COVID-19 pandemic and some have since reinstated buybacks, as markets have improved.

Table 10: Buyback Behavior in Crisis Periods

Crisis	Common Corporate Response
Global Financial Crisis	Reduced buybacks
COVID-19 Initial Phase	Suspensions / liquidity focus
Recovery Phase	Selective resumption
Strong Cash Firms	Opportunistic buybacks

6. Conclusion

This is a systematic literature review that investigated the impact of share repurchase program on shareholder wealth integrating the theoretical view and empirical evidence of previous studies. The review establishes that share repurchases have become a significant corporate payout tool that can result in shareholder value creation in a variety of ways, such as positive share price movements, earnings per share increase, undervaluation remedy, lessening of agency costs and financial flexibility. The majority of the research studies always show that the short-term abnormal returns are positive after the announcement of buyback, which means that the investors consider the buybacks as the signal of management confidence and underestimation of the firm. However, the long-term wealth impacts are not conclusive because some studies reveal long-term benefits whereas others indicate short-term or minimal benefits. Quality of governance, timing, source of funding, performance of firms and the economy at large have a major impact on the effectiveness of repurchase programs. Unsustainable buybacks in the form of excessive or opportunistic buybacks that are only designed to grow the cosmetic EPS might not create sustainable value. Conversely, strategically planned acquisitions backed by robust cash flows and good strategic purpose can go a long way in enhancing shareholder value. The research thus concludes that share repurchases are not necessarily good, but can be an effective value-creating tool when it is practiced in a responsible manner. Future studies can be done on emerging markets, ESG implications, regulatory reforms and industry-specific results in order to further enhance the knowledge in this developing field of corporate finance.

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