PROFITS WITHOUT PROSPERITY: QUESTIONING THE MORALITY OF SHARE BUYBACKS

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ABSTRACT

Share buybacks, also known as share repurchases, are a highly common tactic employed by companies to increase earnings per share and thereby increase shareholder value. Although this practice of buying back one's own shares is legally permissible, prioritising profit over Corporate Social Responsibility has raised questions about its ethical implications. This study examines the benefits of share buybacks including signalling market confidence, stabilising stock prices, and maximising surplus cash flow as well as their drawbacks, including the perception of market manipulation and the hindrance of long-term investment in sustainability and employee welfare. This study finds that the practice can create an illusion of growth that ultimately undermines certain stakeholders' value. The conclusion drawn is that businesses should focus on efficiency in profit maximisation, with due consideration for long-term investment in technology, innovation, and skill. Profit maximisation is essential for business growth, but it should not come at the cost of incurring liabilities. The ultimate goal of a business is prosperity, but it is not the only one. In the real world, financial success and growth often go hand in hand with welfare, long-term goals, sustainability, and Corporate Social Responsibility. Profits without prosperity are meaningless without addressing the well-being of the socio-economic society.

Keywords: Buyback of Shares; Share Repurchase; Profit Maximisation; Market Manipulation; Corporate Social Responsibility; Corporate Governance.

Introduction

According to the prominent economist Milton Friedman, "There is one and only one social responsibility of business - to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game."[1] Businesses around the globe employ various tactics for profit maximisation while still adhering to the legal frameworks outlined in the Companies Act, 2013. However, "staying within the rules" defines a very grey area and is often subject to interpretation. One prominent strategy used by companies to boost their stock prices is share repurchasing, or buyback of shares. While buyback of shares is legally permissible, it often raises ethical questions, mainly because it involves navigating ambiguous legal waters. Share buyback is also known as share repurchase. A buyback is a mechanism through which a company buys shares back from the market.[2] This reduces the number of shares available in the market, thereby increasing the ownership portion of the remaining shareholders. This practice has garnered a great deal of attention over the past decade. The practice of placing money "right where it belongs" sparks debate over whether it is merely a means of increasing shareholder value or also a means of enriching wealthy insiders at the expense of workers. The main aim of this paper is to examine the moral compass of share buybacks, their ethical dilemmas, and the challenges they pose to corporate responsibility. By analysing both sides of the debate, this research seeks to identify the thin line that separates ethical obligation from financial strategy.

Legal Framework for Buyback of Shares in India

Buyback of shares is predominantly regulated under sections 68[3], 69[4], and 70[5] of the Companies Act, 2013. Section 68 grants companies the power to purchase their own shares, provided certain conditions are adhered to. Companies may buy back shares provided they are authorised by their articles and a special resolution has been passed at a general meeting. Section 69 stipulates that if a company purchases shares out of its reserves or securities premium account, an equal amount must be transferred to the "capital redemption reserve account." Prohibitions related to buybacks are set out in Section 70, which ensures that

[1]Norman E. Bowie, *Corporate Social Responsibility in Business*, 2 Cambridge Int'l L.J. 2 (2012).
[2]*SEBI Regulations & Guidelines on Share Buyback*, Kotak Securities (Oct. 18, 2024, 9:21 PM), https://www.kotaksecurities.com/investing-guide/share-market/sebi-regulations-and-guidelines-on-buyback-of-shares/.
[3]Companies Act, 2013, § 68 (India).
[4]Companies Act, 2013, § 69 (India).
[5]Companies Act, 2013, § 70 (India).

buybacks are conducted within a clear legal framework.

Growing Popularity of Share Buybacks

The irony of share buybacks is that a company invests in itself by repurchasing its own shares rather than using external investment, in contrast to shareholders who invest in a company expecting those funds to be used for its growth and expansion. Buybacks operate on the principle that a company's stock price climbs in response to strong demand for its shares; when this occurs, businesses typically buy back their own shares to boost stock prices and control demand, adding value for every shareholder. According to a report by the Economic Times, 48 companies (including Tata Consultancy Services and Wipro) spent about Rs 48,079 crore on share buybacks in 2023.[6] This practice has grown popular over the past decade because companies with excess cash often resort to returning capital to shareholders as an alternative to dividends, thereby improving shareholder value. It also reduces the number of outstanding shares in the market, which increases Earnings per Share (EPS). Once a company has satisfied its capital investment requirements, stock buybacks can be an alluring use of remaining cash flow, and this practice also helps firms stabilise capital without resorting to mergers and acquisitions. Dividend payments are taxed as income, whereas rising share values are not taxed at all; shareholders who sell their shares back to the company may incur capital gains taxes, but those who do not sell reap the reward of higher share value with no additional taxes.[7] Due to unstable market conditions during the Great Recession (2007–2009) and again during COVID-19, many companies refrained from making risky investments and resorted instead to stock buybacks in order to preserve investor confidence and boost share prices.

Apple is among the best examples of a company with a history of “successful” buybacks. The company undertook a $100 billion buyback in 2018 and continued with approximately $90 billion each year from 2021 to 2023.[8] In addition to dividends, which are consistent payments to shareholders, Apple appears to view buybacks as a useful means of returning profits to stockholders. When a company announces a buyback, its share price often increases

[6]Varun Yadav, *Biggest Buybacks in India: 7 Largest Buyback Deals of the Decade – List*, ET Now (Oct. 19, 2024, 10:21 PM), https://www.etnownews.com/markets/biggest-buybacks-in-india-8-largest-buyback-deals-of-the-decade-list-article-113572165.

[7]Benjamin Curry, *Stock Buybacks: How Companies Create Value for Shareholders*, Forbes (Oct. 17, 2024, 7:21 PM), https://www.forbes.com/advisor/investing/stock-buyback/.

[8]*Apple’s Planning a $110B Stock Buyback. Here’s Why*, Poole Thought Leadership (Oct. 9, 2024, 11:21 PM), https://poole.ncsu.edu/thought-leadership/article/apples-planning-a-110b-stock-buyback-heres-why/.

significantly; following its announcement, Apple's stock increased by almost 6%.[9]

Drawbacks

Many politicians, including Joe Biden, voiced opposition to this practice on account of its negative economic and social implications, proposing a quadrupling of the tax on corporate buybacks, while Elizabeth Warren referred to the practice as "nothing but paper manipulation."[10] The debate over whether this practice is economically and socially just has been contentious for many years. Despite their benefits, buybacks may also have a range of perverse effects and may even be value-destroying, raising three categories of concern. First, poor implementation may cause the issuer to incur losses even when it is otherwise performing well. Second, buybacks are a source of externalities, insofar as they may have negative macroeconomic effects that issuers do not always internalise. Finally, stock buybacks may opportunistically be implemented by managers, either in their own interest or that of the issuer, to the detriment of other market participants.[11] Not all buyback strategies go according to plan: Merck, a pharmaceutical powerhouse, announced its largest repurchase plan of $10 billion on February 22, 2000, and its share price fell 15% the following month, as investors interpreted the repurchase as highlighting the company's shortcomings.[12] This illustrates that even when buybacks yield profits in absolute terms, typically when the issuer's share price appreciates over the long term, managers may mismanage the timing of these repurchases. The increase in default risk resulting from leveraged buybacks by systemically important issuers raises the likelihood of a bailout, specifically the use of public funds to avert bankruptcy, and managers may employ buybacks to benefit themselves or the issuer to the detriment of other market participants. As firms transition from a high-growth to a mature phase of their life cycle, their investment opportunity set shrinks, leading to lower risk, a lower cost of capital, and higher free cash flow conditions that can lead to overinvestment.[13] Leveraged buybacks can also increase stock-option value by increasing share-price volatility, which benefits option holders but hurts other shareholders, and managers holding significant stock options may prioritise

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[9]Id.
[10]Thomas Franck, *Elizabeth Warren Rips Stock Buybacks as 'Nothing but Paper Manipulation'*, CNBC (Oct. 13, 2024, 10:12 AM), https://www.cnbc.com/2021/03/02/elizabeth-warren-rips-stock-buybacks-as-nothing-but-paper-manipulation.html.
[11]Paul Oudin & Arthur Adler, *Share Buybacks and Market Manipulation*, V&CO 2, 9 (2021).
[12]Justin Pettit, *Is a Share Buyback Right for Your Company?*, Harv. Bus. Rev. (Apr. 2001), https://hbr.org/2001/04/is-a-share-buyback-right-for-your-company.
[13]R. Sonika, N.F. Carline & M.B. Shackleton, *The Option and Decision to Repurchase Stock*, 43 Fin. Mgmt. 833, 837 (2014).

their own interests over those of shareholders. Managers may further use buybacks to enhance share prices owing to their signalling effect, sometimes introducing a buyback scheme merely to seek approval at a general meeting without actually implementing it. Strategies that temporarily increase share prices serve several purposes: they help financial experts meet expectations when stock prices fall short, and where an issuer faces impending default, buybacks can help mitigate debt-covenant violations tied to share-price multiples in indenture agreements. When a company is substantially shorted, share buybacks may encourage short sellers to unwind their positions due to losses a phenomenon known as a "short squeeze."[14] Managers who have taken out margin loans personally may also attempt to maintain a set share price to prevent margin calls from lending institutions.

Market Manipulation

All that glitters is not gold. The analogy of buybacks as a pot of soup helps illustrate how market manipulation occurs through this mechanism. The fewer people there are, the larger the portion served to each; for everyone who now has a bowl, the pot of soup becomes more valuable even though the soup itself remains exactly the same. The soup does not taste better, and there is no more of it than the original quantity all the perceived increase in value exists only on paper. This illustrates how market manipulation works: when a company engages in buybacks, the number of shares in the market falls, creating more value for each remaining share as demand increases. This creates an illusion of growth, just as in the soup example, since there is no actual improvement in the value of the company or its shares. Manipulation of this kind inflates expectations that are not grounded in reality. Investors, believing they are benefiting from a growing company, tend to invest further, pushing prices up even though the underlying value remains unchanged and the increase is only superficial creating a feedback loop.

The primary concern regarding share buybacks is that they reduce the number of shares available in the market, thereby boosting the company's Earnings per Share (EPS). If a company's revenue and earnings are meant to paint a clear picture of its overall health and longer-term prospects, then stock buybacks can distort that picture.[15] This artificial increase in EPS does not reflect genuine growth in either sales or profitability. This "fake enhancement"

[14]Oudin & Adler, supra note 11.
[15]Karl Montevirgen, *Stock Buybacks: The Strategy Behind Share Repurchases*, Encyclopaedia Britannica (Oct. 17, 2024, 10:43 AM), https://www.britannica.com/money/stock-buyback-explained.

of EPS may render a company's shares more appealing to investors, resulting in elevated stock prices, even though critics contend that this growth frequently fails to align with a company's core performance, rendering it a misleading practice. Share repurchasing can also contribute to broader market volatility by inflating stock prices across sectors, and the widespread engagement of corporations in buybacks can generate a façade of market strength that deceives investors as to the actual condition of the economy.

Challenges Posed to Corporate Responsibility

Corporate Social Responsibility (CSR) is the idea that businesses should operate according to principles and policies that make a positive impact on society and the environment.[16] While firms prioritise financial gain, they frequently overlook the broader interests of society. CSR entails the voluntary adoption of practices that benefit customers, employees, labourers, shareholders, and society at large; however, profit without prosperity serves little purpose. When a corporation has surplus cash, it may buy back shares to increase share prices and prioritise shareholders, thereby neglecting long-term investment conduct that runs contrary to the principles of CSR. Ongoing investment in innovation and sustainable technology is crucial to a company's development, yet this is often overlooked when a company opts to buy back shares. Occasionally, firms incur debt to fund buybacks,[17] resulting in insufficient investment in sustainability, environmental, and social development, or in a scaling back of commitments to long-term goals. Over time, a corporation risks being viewed as an antiquated, profit-driven entity, which can severely harm its reputation.

When it comes to share buybacks, a corporation essentially faces two choices: investing in innovation, employment, and development, or prioritising the production of long-term value for stakeholders. The two most valuable technology companies in the world, Apple and Alphabet, adopted markedly different strategies with respect to share buybacks between 2010 and 2020. Apple presents a textbook example of an aggressive strategy of large-scale capital redistribution to its shareholders. While such a strategy does appear effective in increasing EPS and signalling investor confidence, there is a strong negative correlation[18] between Apple's

[16]A. McGrath & A. Jonker, *What Is Corporate Social Responsibility (CSR)?*, IBM (Oct. 12, 2024, 7:10 AM), https://www.ibm.com/topics/corporate-social-responsibility.
[17]Justin Pettit, *Is a Share Buyback Right for Your Company?*, Harv. Bus. Rev. 1, 7 (2001).
[18]H. Oztap, *Share Buyback and Innovation: A Case Study Analysis of Apple and Alphabet* (2020) (unpublished manuscript).

buybacks and its R&D spending.[19] This suggests that as Apple has increased its buybacks, its commitment to innovation has declined raising red flags. Alphabet (Google), by contrast, offers a more balanced paradigm: although it too engages in buybacks, there exists a positive correlation[20] between its buybacks and R&D spending, demonstrating that it is possible to return capital to shareholders without sacrificing long-term value. Apple's declining investment in R&D calls into question the long-term wisdom of allocating excess capital to buybacks rather than to strengthening future innovation, whereas Alphabet's continued commitment to R&D alongside its buyback programme demonstrates that returning value to shareholders need not undermine long-term growth. Buybacks are therefore not inherently immoral, but they inevitably acquire moral weight based on what is forfeited in the process.

Share repurchases may also erode confidence within a firm among workers and consumers if the corporation is perceived as prioritising financial manipulation over meaningful contributions to society. Effective CSR relies on balancing the needs of all stakeholders, not just shareholders.[21] Prior to the stock-buyback boom, corporations frequently used surplus earnings to raise employee pay and benefits, invest in new equipment, or expand into new markets, thereby creating additional jobs. Now that the majority of profits are directed toward buybacks, comparatively little is left to invest in personnel and the future growth of firms. In 2015, Verizon bought back $5 billion in stock, and a year later told striking CWA members that the company could not afford pay increases, improved healthcare, or better job security; had Verizon instead spent that $5 billion on its workers, every Verizon employee could have received $28,000.[22] This may be seen as prioritising shareholders over workers and employees.

Conclusion

The argument over whether share buybacks are a boon or a bane is no longer especially productive, because each side of the debate is reasonable and fair in its own right, even as the two perspectives counteract one another. Although share buybacks have proven highly successful in raising company and investor value, they nevertheless carry consequences insofar

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[19] *Putting Apple's Mammoth Stock Buyback in Context*, Wall St. J. (May 2, 2025, 3:18 PM), https://www.wsj.com/livecoverage/stock-market-today-earnings-05-03-2024/card/putting-apple-s-mammoth-stock-buyback-in-context-zm78z147zjrNWwadUp0u.

[20] Oztap, supra note 18.

[21] C. Mason & J. Simmons, *Embedding Corporate Social Responsibility in Corporate Governance: A Stakeholder Systems Approach*, 119 J. Bus. Ethics 77, 86 (2014).

[22] *Stock Buybacks Hurt Workers*, Commc'ns Workers of Am. (Oct. 12, 2024, 8:21 AM), https://cwa-union.org/stock-buybacks-hurt-workers.

as they can disregard the broader interests of workers, clients, and society at large. The more relevant question is whether profit maximisation has been pursued efficiently: a business that operates prosperously is also one that achieves genuine profit maximisation. While profit maximisation through share repurchases is important for any business, it should not come at the cost of incurring liabilities elsewhere. Long-term investment in technology, innovation, and skill offers another path to prosperity. The ultimate goal of any business is profit maximisation, but this cannot be its only goal until all those involved in the process are cared for and allowed to prosper. True growth of a firm can only be realised once prosperity and profit go hand in hand.

Throughout this paper, buybacks have primarily been examined through the lens of their profitability for businesses. This, however, is only one perspective. In the real world, financial success and growth are best accompanied by other considerations among them employee welfare, long-term goals, sustainability, and what a business gives back to society. This is why increasing emphasis has been placed on the importance of Corporate Social Responsibility. Ultimately, this paper concludes that profits without prosperity are meaningless unless accompanied by genuine concern for the well-being of the broader socio-economic society.