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Benefits of ESOP (Employee Stock Ownership Plan) to a Company

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ABSTRACT

The study has made an attempt to judge the impact of various benefits of ESOP from the point of view of Human Resource Management and Financial Management. ESOP is a method to reward employees in order to increase employee retention and to reduce employee cost. The research paper is based on secondary data on the various benefits brought forth by ESOP to an organization.

KEYWORDS –Employee Stock Option Plan, Employee Retention, Cost Reduction.

Introduction

Employee remuneration extends beyond what the majority of companies already offer. Employee stock ownership plans (ESOPs) are one of the many benefits that employees today receive in addition to a salary. Let's examine the definition of an ESOP.

An employee benefit plan that gives workers ownership interest in the company by way of shares of stock is called as ESOP (Employee Stock Ownership Plan). In accordance with these plans, the employer provides some firm shares to the employee for no cost or little cost. These shares stay in the ESOP trust fund until the employee exercises their option or leaves/retires from the organization.

This method is used by employers to provide employees with free or low-cost stock options that may be redeemed at a pre-determined price. This leads higher employee retention ratio and boasts employee morale. ESOP scheme also frees up company working capital, which would otherwise be tied up in giving other type employee incentives. ESOP scheme generally has certain upfront costs such as legal costs and administration costs, but these costs can be typically be offset by the benefits to the company and its employees.

ESOP improves employee morale which leads to increased productivity of employees which indirectly leads to increased profits for the company along with the added benefit of cost reduction brought forth by ESOP.

One of the key benefits of an ESOP is the opportunity for qualifying employees to purchase business shares at a discounted price. As a result, employees may be given the opportunity to purchase shares in their employer's company for less than what is available on the open market. ESOP may have tax repercussions for both the company and its employees. When employees exercise their options and purchase shares, they may be subject to income tax on the difference between the exercise price and the fair market value of the shares. Businesses may be able to deduct contributions they make to the ESOP from their taxes, and employees may be able to defer paying taxes on gains from the sale of shares if the ESOP is set up as a tax-qualified plan.

Literature Review

- Employee Stock Ownership Plan: What is it, how it works, Advantages, Author: Akhilesh Ganti
- A Meta analysis (Understanding Impact of ESOPs through Literature), Author: Mahmood Athar
- Research On the Impact of Employee Stock ownership plan on enterprise Innovation, Author: Qiuyue Wang
- ESOPs: Meaning, Benefits and process

Author: DHAVAL123

- The Impact of Employee stock ownership plan on the cost of equity capital:Evidence from China, Author: Fu Cheng and Shanshan Ji
- An analytical study of Employee stock option scheme of leading Indian companies, Author: Mrs. Shefali Rai and Ms. Manjiri Malve

Research Methodology

The Research Paper is based on Secondary data. Data for the research is collected from various online journals, articles and magazine.

Research Objectives

- To the study the benefits of ESOP on employee retention & morale.
- To the study the benefits of ESOP on Company Financials. (Cost Reduction, Tax Incentives)

Benefits of ESOP on Employee Retention & Morale

1. Promoting Employee Loyalty

The capacity of ESOPs to foster employee loyalty is a crucial advantage. Employees who have a stake in the business' success are less likely to depart for alternative employment. Over time, this may result in greater stability and better performance.

2. Improves Employee Morale

Employee morale is one of the most important advantages of ESOPs. Employees are more likely to experience a sense of pride and ownership when they believe they have a personal investment in the business. In consequence, this may boost employee engagement and motivation, which in turn may result in better work output and more job satisfaction.

3. Promoting a Collaborative Workplace

Last but not least, ESOPs can promote a supportive and collaborative work atmosphere. ESOPs can inspire employees to collaborate toward shared objectives by bringing employee and company interests into alignment. Employees may feel more invested in their work and devoted to the success of the organization, creating a more positive and productive work environment.

4. Increase in Employee Productivity

Since an ESOP gives employees a share of the company, they will feel a sense of ownership and will benefit right away from the company's success. As a result, they will become more confident and work harder to help the company grow, which will in turn benefit the employer. Employee equity programs may boost productivity and overall performance for participating companies. When employees have a financial stake in the business, their overall morale and level of trust in it may increase.

Benefits of ESOP on Company Financials

1. Cost Reduction

A few upfront expenses, such as legal, accounting, and administrative fees are typically needed to set up an ESOP plan. However, these expenses can easily be offset by the savings realized by the business as a result of employee retention. If retention rates are higher, the business will avoid the upfront costs associated with hiring new employees who are intended to fill vacancies brought on by high employee attrition.

2. Avoidance of Cash Outflow

Cash compensation required for providing employee incentive other than salary is avoided by setting up an ESOP as it is alternative method of rewarding employees without any cash outflow for the company. This provides a much-needed boost to working capital which can be used in other operations.

3. Tax Benefits

ESOPs offer several tax benefits to both companies and employees. Companies can make tax-deductible contributions to the ESOP trust to buy company stock, and employees can defer paying taxes on the stock they receive through the ESOP until they sell it

4. Negotiation Tool in Employee Salary Negotiations

Employees' salaries can be negotiated at a lower level than usual by providing them the benefit of stock options under ESOP plan. This tactic is used by many emerging startups to retain highly qualified employee at lower salaries as compared to industry standards.

Findings

We have found out ESOP is a great method of rewarding employees & it also proves to be highly beneficial to the employer company. The benefits to a company of ESOP can be from the perspective of Human Resource Management & Financial Management. The main benefits of ESOP are employee retention; boost in employee morale, cost reductions and various tax benefits.

Conclusion

ESOPs are a great tool for businesses to recruit and keep talent, but they are also a risk for the employees. Employees need to be convinced of the company's expansion and should check to see if the necessary paperwork is in place.

Therefore, ESOP can be looked at as a great tool to manage the employee reward system mechanism and its related costs.

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