International Research Journal of Management and Commerce
ISSN: (2348-9766)
Impact Factor 8.098 Volume 12, Issue 05, May 2025
©Association of Academic Researchers and Faculties (AARF)
www.aarf.asia, **Email** : editoraarf@gmail.com

Pre and Post Effect of Employee Stock Option Plan on Organizational Performance: A Longitudinal Study

Dr. Neha Bishnoi

Assistant Professor, G.G.J.Govt. College, Hisar (Haryana)
Email ID: nehabishnoi08@gmail.com

ABSTRACT

The present research work is a conceptual overview, focuses on understanding, the effect of Employee Stock Option Plan from organization point of view. In the study, several empirical as well as theoretical papers have been studied and the impact of Employee Stock Option Plans on several parameters like organizational productivity, individual performance, absenteeism, employee turnover and organizational citizenship behaviour have been reported. Several job attitudes like job satisfaction and commitment of employees towards their organization have also been reported. The studies reporting conditions of these plans that make them successful have been covered comprehensively. The findings of this study indicated that Employee stock option plan has a positive and substantial impact on employees' loyalty and accountability, which increases the retention benefit. This financial tool has been described by beneficiaries as a practical and efficient part of the compensation package. The business culture has been found reflected in this employee-focused program. Cost reductions, improved employee morale, and other tax benefits have been seen as the main benefits of ESOP. So, the performance of the organization has been noted as on higher side after implementation of the ESOP.

Keywords: *Employees, Organization, Employee Stock Option, Productivity, Performance, Absenteeism, Turnover, Implementation.*

1: Introduction

Good workers are hard to come by. Keeping those aforementioned staff motivated is nearly as difficult. It is a well-known fact that almost no employee gives their all at work consistently. It is challenging to try to sustain a level of dedication once someone is already getting a monthly pay that is not based on performance, whether for personal or personality reasons. When the principal's and agent's incentives diverge if their objectives are not entirely in line, agency issues occur. Regardless of size, the principal/agent dilemma affects all businesses. These problems have been recognized by sectors like banking and insurance, which have attempted to stop "moral hazard" behavior by regulations, rules, and severe penalties. When there is a possible agency problem but the severity of the issue is more related to productivity and motivation, what can a business do? Plans for stock options have long been utilized by businesses to reward and entice top leaders. As start-ups proliferate and "start-up culture" becomes more prevalent, many businesses have expanded their definition of "key" personnel to include everyone. The number of equity-based incentive programs in businesses has increased by over nine times in the last forty years. The most often used approach to individual equity-based incentive programs is employee stock options (ESO). Broad-based options have remained common in high-tech organizations, and offering stock options to employees who work for high-tech start-ups has become seen as industry standard. Start-ups expect that offering options will boost employee motivation by offering the chance for a sizable payoff in the future. Employee compensation exceeds what is already offered by the majority of enterprises. Among the various perks that contemporary workers receive beyond their salary are plans for employee stock ownership. Let's examine the definition of an ESOP. An employee benefit plan that gives workers stock ownership in the business is called an employee stock ownership plan. Under these plans, the employer provides the worker with a stake in the business at no cost to them. These shares stay in the ESOP trust fund until the employee exercises their option, leaves the company, or retires. Employers use this strategy to provide employees with free or cheap stock options that can be redeemed at a set price. As a result, staff retention rates increase and employee morale increases. Furthermore, the ESOP plan frees up working money for the company that would otherwise be utilized to fund other employee incentive programs. The early costs of an ESOP plan, which may include administrative and legal fees, are typically outweighed by the advantages to the company and its workers. In addition to the cost-cutting advantages that ESOP offers, improving employee morale boosts productivity, which raises company profitability. One of the key benefits of an ESOP is the opportunity for qualified employees to purchase company stock at a reduced price. As a result, employees may be given the opportunity to purchase company stock for less than what is being offered on the open market. The company's and its employees' taxes may be impacted by ESOP. When employees exercise their options to purchase shares, they may be subject to income tax on the difference between the exercise price and the shares' fair market value. Businesses may be able to deduct payments they make to the ESOP from their taxes, and employees may be allowed to delay paying taxes on gains from the sale of shares if the ESOP is set up as a tax-qualified plan.

2. Employee Stock Option Plan

A firm benefit program known as an Employee Stock Option Plan (ESOP) allows staff members to purchase company stock at a discounted price or at a later time, usually following a vesting period. Since workers directly profit from the company's success, these strategies are made to match their interests with its performance. An outline of an ESOP's operation is as employees have the choice to purchase company shares at a predetermined price, referred to as the "exercise" or "strike" price, which is typically lower than the current rate, stock options often vest over time, providing employees with the chance to purchase a specified number of shares after a predetermined period of time spent working for the company. This helps to promote employee retention. Employees can "exercise" their options, which gives them the right to buy the shares at the predetermined price, after they have become vested. They can choose to sell the shares immediately (if the market price is higher) or them and stock options usually have a cutoff date by which they are no longer exercisable.

3: Employee Stock Option Plan and Organization

By contrasting the company with the Employee Stock Option Plan (ESOP), the relationship between a business and the use of stock options as an employee incentive mechanism is demonstrated. The organization is the business entity or company that operates with the goals of sustainability, growth, and profitability. Managing resources, supplying the market with goods and services, and ensuring stakeholder value are its primary goals. Among its primary objectives are financial performance, staff management, company strategy, overall corporate governance, and market competitiveness. The company provides its employees with a benefit plan or program called the Employee Stock Option Plan (ESOP). Employees can purchase firm shares under the ESOP, usually at a fixed or discounted price. Employee participation, incentives, and alignment with the company's long-term performance are all highly valued in the ESOP. Making employees co-owners of the company is the goal of employee stock ownership plans (ESOPs), which can increase employee loyalty and reduce attrition. The organization is driven by a number of factors, including as market share, innovation, customer satisfaction, and profit maximization. An ESOP may be a component of the company's strategy to attract and retain talented employees, motivate them to work more, and align their objectives with the company's financial performance. Rewarding employees for their contributions to the company's success, promoting long-term commitment, and cultivating a sense of ownership are the objectives of ESOP. It acts as a driving force to boost productivity and foster a collaborative atmosphere where employees understand the benefits of working toward the organization's goals. The executives and board of directors, which make up the organization's leadership, make decisions about company strategy, resource management, and capital allocation. The board often approves an ESOP as part of the overall compensation package for employees, but the management of the company makes the final decision. Employees with an ESOP have limited control over the general operations of the company, but they may be given the right to vote (depending on the plan) once they exercise their stock options and become shareholders. The board and senior management still control most of the decisions, but employees may vote on significant issues and have a voice in some corporate governance issues, such as shareholders. Depending on its ownership structure, a company may be privately held, publicly traded, or owned by shareholders. A publicly listed company's shareholders possess shares, and their interests are taken into consideration while making decisions. In order to transfer shares to employees, the company may dilute present ownership when creating an ESOP; nonetheless, this dilution is often seen as a reasonable trade-off for employee incentive and involvement. The company is subject to risks related to market competitiveness, operational challenges, and economic conditions. Offering an ESOP can be a way to share risks with employees, as their financial advantages would be contingent on the company's performance. Effective performance benefits both the business and its personnel. If the company has trouble, the stock options of its employees may not be worth much. Employees are also subject to risk, especially in companies where the value of the company's stock has a significant impact on their compensation. If the stock price doesn't perform well, workers can find their options "underwater"—that is, worthless if the price falls below the strike price.

4: E.S.O.P. in Indian Organizations

In Indian firms, Employee Stock Option Plans (ESOPs) are becoming more and more common, particularly among startups and businesses in the fintech, e-commerce, and technology sectors. When monetary remuneration is scarce or when businesses wish to match employee objectives with long-term company success, these plans are viewed as a means of luring, keeping, and inspiring talent. The businesses Act of 2013 and rules established by the Securities and Exchange Board of India (SEBI) for listed businesses apply to ESOPs in India. Large publicly traded corporations have also incorporated ESOPs into their pay plans, particularly in industries like manufacturing and information technology (e.g., Infosys, TCS). Infosys and TCS: Infosys was the first business in the Indian IT industry to implement ESOPs, and when the company's stock value increased, many of its early employees became billionaires. ESOPs have also been adopted by TCS for high-performing staff members and senior executives. Banking & Financial Services: ESOPs have been used by Indian banks, such as ICICI Bank and HDFC Bank, as a component of executive remuneration packages, especially for senior management. Employee retention, talent attraction, and alignment with business objectives are benefits of ESOPs in Indian organizations. Because they immediately profit from an increase in stock prices, ESOPs foster a sense of ownership among employees, which encourages them to put in more effort to improve the performance of the business. In India, issues with ESOPs include dilution of ownership, tax burden, and liquidity concerns. Notable instances of ESOP success in Indian businesses include Infosys, Zomato, and Flipkart. Thus, it can be concluded that ESOPs are a useful instrument in Indian corporations for coordinating the interests of employees and the organization, particularly in tech and startup firms. Although they provide employees with substantial financial rewards, they also present certain difficulties that must be properly handled, including as tax ramifications and liquidi

5: Review of Literature

In their research papers, Ikaheimo ***et al.*** (2004) discovered that ESOP announcements provide the market with information. The majority of the information appears to be contained in ESOP announcements that are initial adoption disclosures, or when the company first makes it known that a stock option plan is a component of the company's benefits package. Regression study results demonstrate that ESOPs with a low relative number of new shares provide the stock market with positive information, whereas a high relative number of new shares negatively affects stock returns. This was particularly true for ESOPs that were directed towards all employees, but the comparatively small number of new ESOP shares that were directed towards management or other important persons seemed to go unnoticed by the stock markets. The increased average number of ESOP shares awarded to all employees and the risk of the free rider problem may account for these outcomes. Our findings also suggest that the market has already priced in the prospect of dilution at the time of ESOP announcement, and that the market responds more quickly when larger international corporations notify management of an ESOP. According to the study's premise, ESOPs boost employee motivation, which in turn improves business performance down the road. In his study, Trébucq (2004) found a correlation between ESOP factors and risk and performance measures. In this crucial field of corporate management, future studies may have used different approaches like Relationships between human resources management and ESOPs could be tested using social data. When human resources management is well-coordinated, it is quite likely that ESOPs will improve performance. The direction of the causal relationships between ESOPs and performance may also be revealed by longitudinal research. Duplicating time-series studies in France that are comparable to those conducted in the US and the UK is essential. The economic, organizational, and social backdrop of ESOPs and their connection to performance may also be examined through case studies. According to Pukthuanthong and Walker's (2006) research, ongoing accounting scandals have presented organizations with a chance to reconsider stock options and their function in balancing the interests of shareholders and management. The research included in this study has been carried out in a variety of settings, throughout a range of time periods, with a variety of approaches, and a focus on many topics. As a result, the results are frequently incongruous, yet every one of them has inherent value. We have discussed the benefits and drawbacks of the various study findings. As long as stock-option plans are properly designed, the academic community generally agrees that stock options enhance a company's success. The fact that stock options are so widely used suggests that professionals likewise think the benefits of using them exceed the drawbacks. In the near future, stock options may be reduced in favor of one of the alternatives, though, as the unusual accounting treatment of stock options is likely to vanish. The most significant rivals to the issuance of standard stock options are the options we covered in this survey, while the list is by no means all-inclusive. In contrast, a revolution in pay practices is unavoidably going to be sparked by the impending accounting reforms. An exceptionally fertile field for creative and, hopefully, successful compensation arrangements will be created by the extraordinary combination of the loss of non-recognition of stock options, the sinking equity markets, the growing accounting scandals, and the negative connotation associated with stock options. Research does confirm that individual employee-owners benefit from ESOPs," Freeman (2007) wrote in his working paper. Equity supplements other forms of pay, not replaces them. Increased job satisfaction, organizational commitment, identity, motivation, and workplace involvement are the outcomes of organizations that simultaneously boost worker participation in decision-making. Employee ownership is also linked to much higher employment stability. The majority of employee-owners are less vulnerable than their rivals, although high-profile incidents highlight possible hazards due to a lack of diversification. Additionally, studies show that employee ownership generally boosts a company's longevity, profitability, and productivity.

Research indicates that a combination of greater employee participation and employee ownership could yield incredible returns on investment. However, nothing is known about how employee-owned businesses are managed, and very few initiatives even make an effort to support social claims. Few studies directly address the skepticism of economists, managers, and financiers regarding employee ownership. Employee ownership issues are not well researched. Employee ownership is on the periphery of both scholarly literature and social consciousness, despite its popularity. Since employee ownership is one of the few topics on which both the left and the right can agree, it can garner significant support from people of all political persuasions in the US. More incentives to expand ESOPs are suggested by recent worries about social security solvency. Given this chance, greater understanding can assure its prudent acceptance and successful execution, encourage employee ownership, and effectively. In her PhD thesis, Devan (2015) stated that firms' goals in the modern workplace are to retain people and inspire them to perform to the best of their abilities. ESOPs have been employed as a tool for employee motivation and retention. The research's findings can be advantageous to management since they will enable them to identify cultural variables that affect the granting of ESOPs in India. The feedback on cultural aspects affecting the granting of ESOPs, such as power distance, uncertainty avoidance, individualism versus collectivism, and masculinity versus femininity, might be beneficial to managers. Understanding these cultural dimensions will help organizations better manage these dimensions and deal with a variety of cultural difficulties, which will help to match employee goals with organizational goals. The categorization of demographic variables has an effect on the granting of ESOPs in India, it might be determined. Cultural considerations have a role in the Indian ESOP grant process. The granting of ESOPs in India is correlated with Hofstede's (1980) cultural characteristics. The granting of ESOPs in India is linked to cultural aspects including individuality collectivism, power distance, avoiding ambiguity, and masculinity-femininity. According to research by Ali and John (2016), there is a significant correlation between employee stock option plans and lower employee turnover. These correlations can be attributed to a variety of factors, including increases in employee stock purchase plans, earnings per share, dividends, share capital, ownership of employees within the company, security premiums, cash security premiums, perks, cash bank positions of the companies, sense of ownership among employees, employee productivity within the company, employee motivation, average sales per employee within the company, net profit per employee within the company, morale, dedication, and loyalty among employees. In his research, Ray (2016) found that at higher quintile levels, equity-based payment had a beneficial impact. The findings suggest a positive correlation between business performance and equity-based incentives for profitable and rapidly growing firms. The findings suggest that early adoption of stock-based incentive plans by growing enterprises may result in a decline in overall firm performance. According to the report, making riskier corporate investments might result in higher bankruptcy costs and poor performance for the company in its early stages of growth. Using the QR model, the study attempts to evaluate the impact of the industry on the relationship between ESOP and financial success. The findings show that performance (ROE) and equity-based pay have a positive relationship. The empirical findings show that, at the maximum quantile levels, ESOP has a favorable effect on business performance. It suggests that the sector has a big say in what equity-based compensation is. There are various Indian market aspects that could be responsible for this tendency. First, in their early stages of development, enterprises in the service sector offered equity-based compensation incentives and invented ESOP systems in India. The empirical data also clearly show that ESOP has a favorable impact on business performance at lower ROE quintile levels. Second, the executives profited more from equity-based remuneration during the stock market boom, which might have a favorable impact on the company's positive performance in the following year through increased productivity. The impact of equity-based pay on the market performance of the firm was examined in the study. The findings show that in the majority of market performance quintile levels, the ESOP/total compensation is positive. In their study, Riaz ***et al.*** (2017) found that employee stock ownership plans (ESOPs) in Pakistan have a major impact on organizational performance. This study measures the type and strength of the association in respect to ESOPs using a few unique attributes. This study clearly shows that there is a moderately positive association between employee turnover and ESOPs. There is also a weakly positive relationship between employee turnover and company productivity, and a third relationship between work commitment and ESOPs. Furthermore, it is clear that the aforementioned variables and the ESOPs have a statistically significant link. There is research that shows different differences between males and females when it comes to gender viewpoint. Findings showed that whereas men see employee stock ownership plans (ESOPs) as strongly connected with employee turnover and company productivity, women prioritize job commitment and employee motivation. The primary takeaway from this research is that, within the framework of rising economies, we discovered a positive aspect to the relationships. Therefore, by demonstrating that employee stock ownership plans (ESOPs) significantly improve firms' overall performance, this study adds to the body of knowledge. Furthermore, the study's findings are more in line with the classical theory when examining employees' motivation as a personal attribute in connection to ESOPs. This is especially true when it comes to the firm's profitability, employees' intentions to leave, and job commitment. It's interesting to note that, when it comes to measuring the connection between relevant variables, this study fails to find any solid evidence supporting the classic theory of capital structure. However, since the results are clearly statistically significant and the correlation is somewhat favorable, this study supports the effect of employee ownership stock plan. In her master's dissertation, Chesnut (2018) noted that the exploratory survey results nearly exactly matched the theoretical conclusions. Since the sample size was too small, it is not appropriate to extrapolate the findings to other demographics. According to recent ESO publications, universal subsidies are now more common in start-ups than they were in the 1990s. The exploratory survey revealed that most grants, though not all of them, are given universally. The most unexpected discovery was that the only group to decline universal grants were the founders and co-founders. It was also unexpected that many respondents elected to award below fair market value (FMV), even though doing so can have certain tax ramifications for both individuals and businesses. The literature describes the employee flexibility that ESOs offer. Sudha ***et al.*** (2019) in their research articles suggested that the potential for ESOPs to generate wealth has not yet been fully realized in India. Numerous Indian firms do not view ESOPs as a component of compensation. In a few instances, businesses have given bonuses in place of ESOPs. Bonus options do not, however, have the same ownership component as ESOPs; bonuses cannot replace this. However, many businesses are increasingly considering different solutions in place of ESOPs to develop and retain their leaders. A career path, credentials, business school degrees, and deliberate development are a few of them. It was also found that lower level employees preferred cash bonuses over Esop, and that bonuses are only given to top and middle management personnel. The employees do not see the ESOP as a way to make money; the corporation does. Nonetheless, it is advantageous to the company as well as the worker. Employers utilize it as a retirement benefit plan, incentive program, and means of attracting, retaining, and rewarding staff members. Consequently, it enhances overall business performance. According to Sonali et al.'s (2019) research, one of the Indian economy's fastest-growing industries is construction and infrastructure companies. Both Indian construction and infrastructure enterprises and consumers are not negatively impacted by the implementation of GST. Regarding the Employee Stock Option Plan in Construction and Infrastructure firms, the study's findings were not entirely consistent. Over the past century, numerous organizations worldwide have employed Employee Stock Options (ESOPs) as a strategy to retain skilled workers. Eventually, the concept of ESOPs became popular in corporate India, and following the publication of the SEBI ESOS & ESPP Guidelines in 1999, corporates started to consider ESOPs as a desirable tool for hiring and retaining staff. Higher attrition rates make ESOPs beneficial even though the phenomenon of employee stock ownership has received little academic attention in India, despite the sociological significance of this ownership to changing traditional patterns of wealth distribution. Rising markets are typically an indication that the economy is recovering. The impact of employee stock option plans on the financial performance of Indian construction and infrastructure companies has been examined in this research report. This industry is starting to drive our country's economic expansion. Employer and employee will benefit from the adoption of ESOP in the long run through stable relationships, sociability, and trust that will boost employee performance and firm production. After implementing ESOP, organizations' financial performance has unquestionably improved, but there is still room for improvement. According to Athar's research (2020), a review of the literature demonstrates that ESOP plans have a number of positive effects on enterprises, from individual to organizational benefits. Figures have also been released regarding the organization's increased productivity. Several internal and external factors affect the effect of ESOP. Moreover, Employee Stock Option Plans, or ESOPs, are widely used by businesses worldwide in a variety of industries. They impact job attitudes, organizational citizenship behavior, and productivity on both an individual and organizational level. Most academics agree that ESOPs reduce absenteeism and employee turnover. A variety of factors, both internal and external to enterprises, contribute to the success of ESOPs. According to Pandit's (2021) article, ESOP accounting involves two steps: first, calculating each ESOP's fair value using the chosen method and making appropriate assumptions while consulting with the company; second, amortizing ESOP costs over the number of equity instruments that are anticipated to vest over time. The assumptions that will be utilized to determine the ESOP fair value should be carefully considered by the company. For instance, Company A's employees have historically exercised their options as soon as they become vested, but Company B's employees wait until their options are about to expire to exercise them. As a result, in order to value each company's ESOP, different assumptions would be needed. According to an internal study research carried out by Mumbai University Actuarial Students in cooperation with our team, among a sample of more than fifty mid-cap firms, almost fifty percent have issued equity-settled payment plans (ESOPs), and nearly all of the companies have equity-settled payments. When it comes to option pricing, the Black Scholes model is more popular than the Binomial and Monte Carlo simulation formulas. The intrinsic value approach of accounting was used in certain businesses (banks). Businesses typically prefer to have an actuarial valuation for the ESOP Expense calculation because it necessitates the use of specific scientific instruments and additional demographic assumptions in your estimate. In their essay, Chavan A. & Yadav P. (2021) explained that the lack of competent labor and employee turnover make it the most challenging task facing company leaders: retaining talent. In this situation, companies must find the best ways to keep the best employees. The purpose of this article was to provide a conceptual understanding of the long-term importance of talent retention in organizations, particularly in start-ups and well-known businesses like Aditya Birla Group. It has concentrated on several kinds of option plans that are advantageous to employees in different ways. Although there are many strategies for keeping the organization's current talent, this paper focuses on employee stock option plans as a talent retention tool. Since long-term enterprise value, which is fueled by competitive advantage, employee productivity, and business plan execution, are the long-term benefits of ESOP implementation, the aforementioned study backed the organization's adoption of an employee stock option plan. Employees are given the opportunity to directly participate in the success of the company through these groups. As a result, the firms will be able to keep their talent throughout time.

According to Lise (2022), employee stock option plans (ESOPs) are a popular kind of compensation that are becoming more and more sought after by workers in the United States. The concept is straightforward: founders give employees stock options at a predetermined price with the intention of sharing the income generated by their career advancement. The concept began to spread throughout Europe at the beginning of the twenty-first century, and more startups and larger enterprises implemented this plan. This master's thesis focuses on the Belgian entrepreneurial scene and the evolution of this tool, as the idea grows into a powerful tool in the attraction of companies. Thus, the primary goal of this study is to determine how this sharing strategy affects the Belgian startup ecosystem. Consequently, three primary and noteworthy effects were found. First off, the employee stock option plan significantly and favorably affects workers' accountability and loyalty, which in turn amplifies the retention benefit. Second, recipients describe this financial instrument as a useful and effective tool in the compensation package. Lastly, this employee-focused program both significantly reflects and favorably affects the corporate culture. In her master's thesis, Ndungu (2022) discovered that employee productivity in a profit-driven corporation like Odyssey Capital Limited is increased by ESOP ownership in the organization. Offering or increasing ESOP ownership to workers at all levels can boost worker productivity. However, because of the length of time the firm sets for the vesting of stock options or the challenges associated with financing stock purchases upon reaching a milestone, ESOPs appear to favor employees who have worked for the company longer. Since employees must remain with the company for a sufficient amount of time to begin receiving benefits, other factors such as employee retention also affect employee productivity. Therefore, regardless of the job they hold, giving employees more ESOP ownership can increase employee productivity. Employee stock ownership plans (ESOPs) in profit-oriented businesses boost employee retention because they provide both short- and long-term benefits to the workforce. The company's employment is growing as a result of the employees' increased enthusiasm and optimism about their jobs. Employees who have stock options also feel more confident in their existing positions, which lowers the possibility that they may accept a job offer from a rival business. In order to boost employee retention, businesses need do more than only provide ESOPs to its staff members. They should also enhance the working environment, raise benefits, and foster an innovative and creative culture. Employee ownership of stock enhances the company's and the employees' financial security. Yet, ESOPs have a greater impact on the financial security of employees than does the business. Having stocks enables workers to invest for retirement and accumulate an emergency reserve. Moreover, because employees only have to pay taxes when they exercise their options, stock programs lower their tax liability. Therefore, ESOPs are essential for enhancing an individual's financial situation, particularly if they remain with the company long enough for the stock to vest. Employees should think about working for companies that provide ESOPs because it is a tried-and-true way to improve their financial situation. Zhou and Kong (2022) observed in a study that The 'Guidance' was released in June 2014 by the CSRC with the aim of enhancing the governance structure of Chinese listed companies. The guidelines primarily target non-managerial staff and offer incentives to them by linking their salary to the performance of the company. The benefits of ESOPs, such as lowering the conflict of interest between large shareholders and employees, raising business performance, and increasing employee productivity, have been recognized by academic study on ESOPs conducted in China. As such, ESOPs have drawn a lot of interest from scholars and practitioners. In contrast to previous research, the relationship between ESOPs and CSR is the main topic of our work. By encouraging employees' long-term orientation and mutual monitoring, ESOPs have been found to promote corporate social responsibility (CSR) in a sample of 895 A-share listed enterprises in China. We also looked at the effect of wedge structure on the association between ESOPs and CSR, since ownership arrangements are essential to ESOP effectiveness. Previous research has shown that the wedge structure makes it easier for dominant owners to appropriate minority shareholders' interests. According to our research, ESOPs are less effective when control and cash flow rights are separated. More specifically, in companies without a wedge structure, ESOPs have a greater impact on CSR. We also discovered how business size affected the connection between CSR and ESOPs. In particular, we discovered that the free-rider effect still exists in CSR and that small businesses, who are more likely to practice group collaboration and mutual monitoring, benefit more from ESOPs' influence on CSR. In conclusion, ESOPs in Chinese listed companies assist businesses meet their CSR objectives and offer productive incentives for staff. Specifically, the incentive effect of ESOPs is more pronounced in smaller firms—those without a wedge structure.

In their study, Le and Nguyen (2023) found that the issuance of ESOP shares to staff members improves the financial performance of JSC banks in Vietnam, particularly when it comes to key performance metrics like ROA, ROE, and NIM. The more ESOP shares issued, the more profitable the bank is. The method results further demonstrate that the issuing of ESOP has a favorable impact on the added value of JSC banks; however, this benefit must be gradual (beginning approximately two years later), and at the time of issue, the banks' output will be constrained. It follows that banks aiming for quick expansion in the near future shouldn't implement the ESOP program for staff members. Banks can consider implementing ESOP to both encourage employees and boost business efficiency only after reaching a particular degree of development and paying greater attention to long-term goals. These banks can now conduct research and set up the prerequisites for later implementation of ESOP. Some banks—like Vietcom Bank, BIDV, and others—that have substantial total assets and workforces ought to give ESOP some serious thought going forward. By helping to raise capital and guaranteeing that it is sufficient to achieve the bank's objectives, ESOP enhances earnings, assets, and operational effectiveness. The substantial size of present assets in relation to the workforce helps to mitigate the initial unfavorable effects of the ESOP issuance. However, the share values of these big banks are frequently far greater than their par value and much higher than those of other banks. For instance, the share price of Vietcom Bank typically exceeds VND80,000, whereas the share price of BIDV typically hovers around VND40,000. These banks will give their employees a bigger "bonus" than other banks when they provide ESOPs, which will encourage them to work for and stay in the bank longer. Kedari ***et al.*** (2023) study publications state that setting up an ESOP plan usually involves little upfront costs, such as legal, accounting, and administrative fees. Nonetheless, the savings the company obtains from staff retention easily outweighs these costs. A company will be spared the up-front expenses of recruiting new staff to cover positions left by high employee attrition if retention rates are better. By establishing an ESOP, which is an alternate means of rewarding employees without requiring cash outflow for the business, the financial compensation required for offering employee incentives other than salary is avoided. This gives working capital, which can be utilized for various purposes, a much-needed boost. ESOPs provide businesses and employees with a number of tax advantages. Businesses can purchase firm stock through the ESOP trust for tax-deductible donations, and employees can postpone paying taxes on the stock they acquire through the ESOP until they sell it. Giving employees the benefit of stock options under an ESOP plan allows for the negotiation of lower-than-normal compensation. Many new businesses adopt this strategy to pay highly skilled workers less than the going rate in the field. We now know that ESOP is an excellent way to recognize staff members and has many advantages for the employer. The advantages of

ESOP for a business can be seen from the viewpoints of financial and human resource management. The primary advantages of ESOP are cost savings, increased employee morale, and a number of tax advantages. Although ESOPs are a fantastic tool for companies to find and retain talent, employees should be aware of the risks involved. Workers must be persuaded of the company's growth and should verify that all required documentation is in order. As a result, ESOP is a fantastic instrument for controlling the employee reward system's workings and associated expenses. According to Zhou et al. (2024), ESOPs considerably raise corporate risk-taking. The specific mechanism is that ESOPs ease corporate finance limitations and increase corporate risk-taking by lowering the dual agency costs between managers and employees as well as between shareholders and managers. It was also determined that the use of ESOPs to increase business risk-taking was of excellent quality. This is due to the fact that ESOPs decrease excessive debt and overinvestment, which are harmful to corporate value, and encourage R&D investment, which increases corporate risk-taking quality and strengthens value impacts. Additionally, the design differences of ESOPs have different effects on corporate risk-taking: plans managed by third-party institutions, leverage, high discounts, and longer lock-up and tenure periods have a stronger promotion effect on corporate risk-taking; employee subscription is more effective than executive subscription in promoting corporate risk-taking; ESOPs do not have a "free-rider" problem in China; and the larger the proportion of ESOP issuance, the more participants, and the better the implementation effect.

5.1: Research Gap

After the above mentioned literature, it has been seen that most of the studies have been carried out across the boundaries. Very few studies have been conducted in Indian organizations on the issue. However, studies especially with respect to know the pre and past effect ESOP on organizational performance have been seen very less during research review. Accordingly, there is a gap and the very topic has been selected for filling the above mentioned gap.

6: Research Methodology

The primary goal of the study was to know the performance of the organizations before and after implementations of ESOP.

6.1: Objectives of the Study

The basic objective of research was to know the performance of the organizations before and after implementation of ESOP. Accordingly, the following sub objectives have been set up:

(a) To study Pre and Post Effect of ESOP on organizational Performance.

6.2: Research Design

Research design is to be called the blue print for a study which basically comprises of various techniques regarding which and how required information has been collected by using an appropriate method of investigation efficiently. Since, the study is conceptual in nature, so the methodology used in the study is based on reviewing various research studies, articles, dissertations (Published/unpublished), text books by various authors in different geographical areas. Accordingly, interpretations have been drawn and conclusion has been made.

7: Discussion and Conclusion

The impact of employee stock option plans on a number of metrics, including organizational productivity, individual performance, absenteeism, employee turnover, and organizational citizenship behavior, has been documented in the previously mentioned research studies. There have also been reports of a number of job attitudes, such as employees' dedication to their company and job happiness. In India, the granting of ESOPs is associated with cultural elements such as masculinity-femininity, power distance, individuality, collectivism, and avoiding ambiguity. Employers use it as a way to reward, retain, and attract employees as well as a retirement benefit plan and incentive program. It improves overall performance of the organization. The direct correlation between equity-based option schemes and market performance metrics has been seen. ESOP eventually benefit both the employer and the employee by fostering sociability, trust, and stable connections that will improve worker performance and business output. Organizations' financial performance has been found improved where ESOP has been implemented.

ESOPs boost employee motivation, which in turn improves future business success. The cost of employee motivation has been represented by the dilution effect. Different kinds of financial incentives affect business performance both overall and case-by-case. The financial security of the business and its employees is improved when employees own stock. It has also been noted that ESOPs affect employees' financial stability. ESOP enable employees to build up an emergency fund and save for retirement with stocks. Stock programs reduce employees' tax obligation because they only pay taxes when they exercise their options. Employee’s financial status improved by ESOPs, especially after stay with the company long enough for the shares to vest. The practice of giving normal employees stock options has grown in popularity as "start-up culture" has spread in countries like U.S.A. Employee stock option plan has a positive and substantial impact on employees' loyalty and accountability, which increases the retention benefit. This financial tool has been described by beneficiaries as a practical and efficient part of the compensation package. The business culture has been found reflected in this employee-focused program. Cost reductions, improved employee morale, and other tax benefits have seen as the main benefits of ESOP.

Further, the employees should also understand the dangers associated with ESOPs, even if they are an excellent tool for businesses looking to attract and retain talent. Employees need to be convinced of the company's expansion and should confirm that all necessary paperwork is in order. ESOP has also been considered as an excellent tool for managing the operations of the employee reward system and related costs. In general, all businesses are equity-settled payments and many among them have issued ESOPs. When it comes to option pricing, the Black Scholes model is more popular than the Binomial and Monte Carlo simulations. The intrinsic value approach of accounting was used in certain businesses (banks). Companies prefer to have an actuarial valuation for the ESOP expense calculation because it involves the use of specific scientific instruments and other demographic assumptions. ESOPs in Chinese listed companies help companies achieve their CSR goals and provide employees with constructive incentives. In particular, smaller businesses those lacking a wedge structure found benefitted more from ESOPs' incentive effect.

Therefore, the objective "*To Study Pre and Post Effect of ESOP on Organizational Performance.*" has been achieved.

8: Recommendations

It is possible to compare the productivity between organizations providing ESOP plans and those that do not. Additional factors can be added to account for the impact that the introduction of ESOP schemes. All the willing employees should be given ESOP by the organizations, otherwise it will incite employee jealously, animosity, and groupism among employees. Workers believe that ESOP is not awarded fairly, and a suitable process that discloses the granting process should be established. The process of awarding ESOP should be transparent. Management of the company should openly reveal which employees receive ESOP, how many employees receive it, and about cost of doing so. Employees should be made aware of the purpose of ESOP in order to increase their interest in the business. In order to encourage other employees to work for the company, the impact of ESOP on employee turnover should be revealed in the annual accounts. More research may be needed to compare the relative firm performance of companies with and without an ESOP component in their remuneration structure. Future research may also examine the variables influencing employee stock option plans and the degree to which agency issues have been resolved. Guidance to start-ups in high-tech and other industries on the features of ESOPs can be offered by the employers for betterment.

9: References

Athar. M. (2020). Employee Stock Option Plans: A Meta-Analysis (Understanding Impact of ESOP Through Literature). *Studies in Business and Economics.* 15 (*1*). 100 -114.

Ali. M. Z. & John. N.K (2016). A Study of Employees Stock Option Plan and Its Impact on Company Financial Status and Employee Turnover.1-11. Retrieved at https://www.ijcrt.org on 04.10.2024.

Chavan. A. & Yadav.P. (2021). Employee Stock Option Plan as a tool of Talent Retention. *Tactful Management Research Journal.* 47-49. Retrieved at https://www.doi.org on 06.10.2024.

Chesnut. K. (2018). Employee Stock Option Programs in Start-Ups in Europe and the USA: High Technology Industry. *Masters Dissertation.* 1-69. Retrieved at https://www.semanticscholar.org on 05.10.2024.

Dewan. A. (2015). Employees Stock Option: A Study of Select Companies. *Doctoral Thesis.* 1-191. Retrieved at https://www.shodhganga.inflibnet.ac.in on 04.10.2024.

Freeman., S.F. (2007). Effects of ESOP Adoption and Employee Ownership: Thirty years of Research and Experience. *University of .Penn Center for Organizational Dynamics. Working paper. 1-7.* 1-33. Retrieved at https://www.sas.upenn,edu on 17.10.2024

Ikaheimo. S, Kjellman, A., Holmberg. J. and Jussila. S. (2004). Employee Stock Option Plans and Stock Market Reaction: Evidence From Finland. *The European Journal of Finance* 10, 105–122. Retrieved at https://www.tandfonline.com on 05.10.2024.

Kedari, J., Ramteke, P., Nagraj, I., Sahani, A. and Chaware., P. (2023). Benefits of ESOP (Employee Stock Ownership Plan) to a Company. *International Journal of Research Publication and Reviews*. 4(*10*). 541-543.

Lise. S. (2022). What are the most significant effects of the Employee Stock Option Plan (ESOP) on the Belgian entrepreneurial landscape?. *Digital Access to Libraries (DIAL).* 1-81. Retrieved at https://www.hdl.handle.net on 05.10.2024.

Ndungu. A.W. (2022). The Effect of Employee Stock Option Plan in a Profit Oriented Organization: The Case Of Odyssey Capital. *Masters Dissertation.* 1-72. Retrieved at https://www. erepo.usiu.ac.ke on 04.10.2024.

Pandit. K.A. (2021). Demystifying Employee Stock Option Plan (ESOP) Accounting. *Consultants & Actuaries*. 1-9. Retrieved at https://www.ka-pandit.com on 04.10.2024.

Phuong Lan Le., P.L and Nguyen, H. T. T. (2023). Effects of Employee Stock Ownership Plans on Firm Performance – Evidence from Listed Commercial Banks of Vietnam. *Banks and Bank Systems*, 18 (*2)*. 201-213.

Pukthuanthong, K. and Walker, T (2006). On the Pros and Cons of Employee Stock Options: What Are the Alternatives. *Corporate Ownership & Control.* 4(*1*). 266-283.

Ray. K. K. (2016). Employee Stock Option Plan and Firm Performance: A Quantile Regression Approach. *Asian Journal of Empirical Research*. 6 (*6*). 152-166.

Riaz, F, Razzaq, F.A and Waqar. A. (2017). Effect of Employee Stock Ownership Plans (ESOPs) on the Performance of Small Business in Karachi. *Munich Personal RePEc Archive (MPRA)*. MPRA Paper No. 84322. 1-15. Retrieved at https://www.mpra.ub on 04.10.2024.

Sonali B., Ramchandani1 and Hemal B. P. (2019). Evaluating the Effect of Employee Stock Option Plans on the Financial Performance of Indian Construction & Infrastructure Companies. *International Journal of Engineering and Management Research*. 9 (*4*). 17-24.

Sudha, P., Sanjay. A. and Raju. M. (2019). Analytical Study of Leading Indian Companies' Employee Stock Option Schemes. *International Journal of Management Research & Review*. 9 (*4*). 1-19.

Trébucq. S. (2004). The Effects of ESOPs on Performance and Risk: Evidence From France. *Corporate Ownership & Control*. 1 (*4*). 81-93.

Zhou, L., Wei, F. & Kong, Y. (2022). Do Employee Stock Ownership Plans Affect Corporate Social Responsibility? Evidence from China. *International Journal of Environmental Research and Public health.* 19, 1055. 1-19. Retrieved at https://www.doi.org on 06.10.2024.

Zhou. Q, Han., H and Han. J. (2024). Does employee stock ownership plan have monitoring and incentive effects? --An analysis based on the perspective of corporate risk taking. *Heliyon*. 10. e24489. 1-24. Retrieved at https://www.cell.com on 17.10.2024.