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REVIEW OF LITERATURE

2.1 ESOP INTRODUCTION:

India, in spite of being the second largest country in population has the crucial problem for Human Resource Managers is to retain employees in the company. India is also one of the countries with the youngest population but still has a high unemployment rate. It is a leading developing country and the whole world looks to India as an emerging super power country, but still has high attrition rate. (Rashmi Farkiya, 2013) As per the Hay group study in 2013 one in every four employees in the organized sector in India is set to switch jobs, the highest attrition rate all over world. Increase in investment in infrastructure, information and technology industry, railways with “Make in India” atmosphere lead to a huge demand for talented technical manpower. Employee turnover was predicted to be 26.9% in 2013 as compared to 26% in 2010. According to Divakar Kaza, president, HR, Lupin Pharma, “The best insurance against attrition is not to hope for lack of opportunities outside but build strong internal conditions which act like glue to employees” Nowadays organizations have started granting Employee Stock Option Plan to retain its employees in their organization. Researcher has done extensive review on topic of Employee Stock Option Plan and its effect on financial statement, security premium and employee turnover. Granting of ESOP being new in India, limited literature was available in India. Researcher has done some review from literature of other countries. The chapter focuses on the first objective to study literature in the concerned area. This review of literature deals with past research study done in India and also in other countries, to understand area of research, methodology adopted for research and limitations and scope for further study. On basis of review, researcher has framed its objectives for study purpose.

The focus of the literature review is:-

1) To find information regarding companies giving Employees Stock Option Plans as benefit plans.
2) To study accounting methods adopted at the time of granting of Employees Stock Option Plan.
3) To study reasons for providing Employees Stock Option Plans.
4) To study the presentation of security premium at grant of Employees Stock Option Plan.

5) To study the formalities and procedures to be followed at grant of Employees Stock Option Plans.

6) To find the gap and prepare for present study.

2.2 ESOP AT INTERNATIONAL LEVEL:

1. **Brian J.Hall and Kevin J Murphy (Feb 2000)** in their article “Optimal Exercise Prices for Executive Stock Options” has studied economic rationale for setting exercise price for executive stock options can be set either below or above the grant date market price. They have provided operationally useful alternative to Black-Scholes for the purpose of valuing executive stock option and measuring the incentives created by options.

2. **John Hull and Alan White (Sept 2002)** in their article “How to Value Employee Stock Options” made a comparison between FASB 123 and Enhanced FASB 123. Traditionally FASB 123, stock options in the United States are accounted on the intrinsic value method, under which compensation cost of an employee stock option is assumed to be excess, if any, of the market price of stock over the exercise price on the date the option is granted. In October 1995 the Financial Accounting Standard Board published FASB 123 “Accounting for Stock Based Compensation”, which encourages companies to adopt a fair value based method of accounting for stock options instead of intrinsic value. The authors have developed a modified model of FASB 123 called as “Enhanced FASB 123”, which takes into account 1) employee will leave after vesting period and 2) the employees early exercise policy.

3. **Frederick Odero, (October 2012)**, in his Research Project for Master of Business administration degree, University of Nairobi, “The effect of adoption of ESOP on Financial Performance of firms listed at Nairobi Securities Exchange” with
secondary data i.e. annual reports and financial statements compared pre and post ESOP for five years with using paired t test at .05 level of significance came to the conclusion that it has obtained mixed results on financial performance and suggested that there is still a lot of scope for research regarding ESOP and other variable like size of ESOP firm, market share of ESOP firm and performance of the economy.

He stated that ESOP has a long history in USA, and stated that in 1950 and 1960 the popularity of ESOP gained political momentum when Senator Russel Long became a major proponent of ESOP.

4. Yumio Saneyoshi, in his dissertation “Employee Behavior and Company Stock Ownership”, Harward University (2001) for the degree of Doctor of Philosophy in the subject of Business Economics at Harward University, Cambridge, Massachusetts, has studied private business firms in the U.S. having 4000 to 40000 employees during the period 1983 to 2000, 70% college degree, 30% of sample have graduate degree, 35% women, 65% married and average employee age of 40 years. The shares of this firm are not publicly traded. 90% of firm stocks are owned by current employees. Stock prices are determined by board of directors and certified by an independent. In this thesis the author has studied the link between compensation policy and turnover of employees. He has discussed various reasons that influence quit decisions like married employees (less turnover), College education (higher turnover), females (higher turnover), and level of workers wage (higher in lower level). He has used Weibull Duration Model (page 28) for effect of these factors on quit probability. Vesting restrictions also influence turnover of employees. Finally he concluded that employee stock ownership is correlated with lower turnover. He has also compared wage dispersion which increases employee turnover. He also correlated relationship of gender (male having invested more than female) and racial difference (black more likely to purchase ESOP in 1998-2000.) He has also concluded that behavioral biases also affect on employee turnover.
5. Edward Ghansah in his dissertation “Role of Employee retention on Job Performance” case study of Accra Brewery Company Limited, Accra (2011) degree of Commonwealth Executive Masters in Business Administration. His main research was to find the role of employee retention on job performance. Researcher has done study on Accra Brewery Company Limited and in his review of literature stated that reasons of employees leave the job (remuneration and other types of benefits), reasons for employees retention like stimulating work environment, effective communication, recognition on part of employer, respect and support from higher authorities, workplace culture and commitment, strategic approach of management. Factors affecting retention mentioned are compensation benefits, performance based compensation, reward and recognition, training development and career planning, recruitment and orientation, healthy workplace and wellbeing programmes, work life balance.

Researcher has interviewed Senior Level Staff, Junior Level Staff and Human Resource Director. Senior Level Staff (53%) stated that Company is making an effort in retention, 100% agreed that in the last six months some has left the company and employee retention is the biggest challenge and 26% were satisfied with the retention plan in the company; while junior level staff 100% agreed that the retention plan will benefit company, 86% agreed that it is a challenge today to retain employees. 33% agreed with the retention effort of company. The Human Resource Director stated that the performance of employee should be evaluated and high performing staff should be rewarded. He stated that employee retention will benefit company by reducing cost of turnover-hiring, training and productivity loss, company knowledge loss- past history, valuable research, project etc, interruption to customer service, turnover itself will increase more employee turnover, loss of goodwill of company, loss of efficiency till new employee gets full knowledge. He stated that an employee leaves due to job and person mismatch, no growth opportunities, lack of appreciation by seniors, stress from overwork and work life balance, better compensation outside company, new
job offer. He stated that Salary and Remuneration, Performance recognition, Benefits and Opportunities will increase employee retention and mentioned that nowadays an employee looks beyond money to remain in an organization. He suggested that new innovative methods of retention should be followed and suggested introduction of Retention bonus— that is bonus for remaining for a certain period, a certain project and a certain objective.

Finally researcher recommended that to develop attractive employee value proposition, regular feedback on employees, and training for employees, flexible in terms of work life balance and create reward structure that includes more than compensation.

6. **Danniel van der Graff in “Economic consequences of the fair value approach to ESOP”** in his research thesis IFRS 2 the end of Employee Stock Option, has studied the effect of following an accounting system of recognizing Employee Stock Option at fair value as per IFRS 2, which became mandatory from 1st January 2005 for all stock listed European Companies. IFRS 2 concerns the accounting method for ESO. Till then ESO were recorded in books at intrinsic value. There was a large opposition against accounting standards that required share-based payment to be expensed at their fair value. According to IFRS 2 the entity should recognize the associate expense of Employee stock option in books and would have large impact on the reported earnings of firms. In his research he explained definitions of employee stock option, intrinsic value, fair value and compared the effect of IFRS 2 on economic consequences on both companies who were voluntarily following IFRS 2 before 2005 and companies who mandatorily followed IFRS 2. It is stated that when accounting method changes from intrinsic value to fair value at grant date, a reduction in employee stock option can be found. Author concluded that in case of French and Dutch mandatory adopters reduced the average number of options granted by 18.2%, and in case of British reduced the average number of granted by 30.5%. Voluntary adopters increased the number of options after IFRS 2 with 14.3%. Further he stated that based on multiple regression the reduction in ESO granted
to employees was greater for mandatory firms compared with voluntary firms and suggest that the economic consequences of IFRS 2 was reduction in ESO.

7. **Marshall Vance in his article “Deferred Compensation plan Characteristics and Voluntary Employee Turnover” (2014)** in his research study of store level employees of a large U.S. retail firm suggests that employees who are eligible to receive contributions under the deferred compensation plan have significantly lower turnover rate than employees who do not meet eligible requirements. He states that the plan eligibility retention effects are stronger for females than for males and for older workers than younger workers. The author has set various hypotheses relating to the effect of plan characteristics, eligibility – age, tenure and hours worked, contribution amount on voluntary turnover and association between unvested holdings and voluntary turnover. He finally concluded that plan eligibility is associated with a statistically significant decrease in the rate of turnover of non managerial employees. He also concluded that amongst these employees, plan eligibility is associated with decrease in voluntary turnover of between 15-35% and value of unvested plan holdings is associated with reduced turnover rates among low level employees and this effect is stronger when unvested plan are invested in company stock. He concluded that employees may respond to retention incentives implicit in deferred compensation plan characteristics but that the strength of these incentives is determined both by specific plan characteristics and employee characteristics.

8. **Hongyan Fang, John R. Nofsinger, Juan Quan (2015)** in their article “Effect of ESOP on Chinese Firms” stated that in China Employee Stock Option Plan was uncommon till 2005, it is in 2005 when “Regulation of Equity Incentive Plan” was released which specifies general rules for granting firms, procedures of grants, information disclosure etc. Object of ESOP is to retain good managers and employees and tie their own interest with that of companies but it is stated that the equity based payments have received public criticism from the beginning. However ESOP in China and in U.S. varies at micro level, at vesting schedule, which combines both annual bonus plan and long term incentive compensation
schemes embedded in stock option plan. Firms usually use performance based vesting structure and will set annual performance hurdle for each year. It is stated that firms issuing ESOP outperform matched non-awarding firms, however, after ESOP is granted there is no significant difference in performance. Firms unanimously use ROE or growth rate of net income as performance measure in their vesting schedule, however, it is stated that there is a lot scope for manipulation in accounting figures in a growing economy like China where law and law enforcement are inadequate. Researcher stated that ESOP changes firm valuation mainly in privately –owned and firms having stronger governance. However there is not much change in market response indicating market is unable to anticipate effect of ESOP. Researcher also compared discretionary expenses i.e. Research and Development, Advertising, and Maintenance expenses and concluded that not much change in these has taken place in the post ESOP period. Researcher concluded that operating performance of firms issuing ESOP was higher as compared to similar firms without ESOP. This effect was more in private firms and firms with independent board relative to government controlled firms

9. Serdar Aldatmaz, Paige Quimet and Edward d Van Wesep (2004) in their research program of the Center for Economic Studies CES 14-06 article “Effect of ESOP on employee turnover” stated a reduction in turnover appears to be temporary with turnover increasing in 3rd year following year of adoption of Broad Based employee stock option. It is delaying process of turnover and not preventing permanently. According to Hansen (1997) the cost of hiring and training new worker equals 150% to 175%. According to Blasi, Freeman, Mackin and Kruse (2010), workers owning stock options report that they are less likely to look for a new job.

Authors have relied on four data sources, two from US Census Bureau – The Longitudinal Employer – Household Dynamics (LEHD) and Longitudinal Business Databases (LBD), others are ExecuComp Data and CRSP and Compustat.
Concluded that BBSO Plans decrease in turnover after issuing stock options to employees, negative association between the implementation of BBSO and turnover is larger when industry or market returns are high. Firms with BBSO plans should see greater relative decline in turnover, as compared to without BBSO, when industry or market returns are higher.

10. Malvern Chibo, Michael O. Samueal and Crispem Chipunza (June 2010) in their research paper “Examination of employee retention policy in private organization in Zimbabwe” African Journal of Business Management stated that due to volatile economic environment, hyper inflation, high interest rates, high import tariffs importance of human capital cannot be ignored. Researcher stated that due to economic cum political sanctions imposed by some of developed countries further aggravated situation and made Africa’s strongest economies to the world’s worst. Researcher stated that in current medical laboratory retention strategy was mainly non financial rewards like 70% medical aid contribution, subsidized lunch, uniform, housing and educational loans and transport allowance to non managerial employees. For managerial employees benefits as 100% medical aid contribution, subsidised lunch, company car, transport and housing allowances, fuel, education and housing loans, company cell phones and holiday bonuses. Apart from this company has strategic recruitment plan by sponsoring students in tertiary institutions and they will be bound to work for the organization for at least five years. Company also has promotion policy within the organization which motivates employees to build life-long career in organization. In these organizations non managerial employees tend to leave the job due to inadequate salary, social affiliation, competitive remuneration, good working conditions and job security. Money was a highly debatable factor for motivating employees to retain or leave job. In this organization with inflationary conditions like in Zimbabwe, higher salary will retain employees. Further, researcher stated that there is association of job security and employee retention particularly in present economic conditions in Zimbabwe. Of course it further stated that it also depends on the age of employees as for younger generations employees they
create security every day i.e. they are doing a good job every day. Researcher further stated that another factor was alternative employment outside the country and flight of brain drain particularly in skilled employees. The main conclusions made by researcher that organizations should give more attention to factors responsible for intention to quit and then devise workable retention strategy. Research outcome was that money may significantly influence retention but is ineffective. The cost of high turnover can be considerable thus organization should change its retention policy. Finally it stated that this paper will create awareness among mangers to look for retention process. It stated that it should not amount to “fire brigade” approach to retention strategy.

11. **Waleed Alnaqbi in (2011)** at Edith Cowan University in his thesis “The relationship between Human Resource Practices and employee retention in public organizations: An exploratory study conducted in the United Arab Emirates” has discussed factors affecting employee retention e.g. Job Security, Job Descriptions, Job profiles, Decentralisation and reduced hierarchy in workplace, empowerment and accountability in area of work, workplace environment, work conditions as office place, compensation benefits such as ticket allowance, housing allowance, telephone allowance, leadership, national culture, centralized leadership, infrastructural support, remuneration package, poaching by international organization, lack of traditional psychological contract, training and development, career progression, incentives and rewards, profit sharing and stock ownership, Globalisation, technological development, intensified competition in the world, this has an effect on challenge for managers for retaining highly qualified and trained employees.

In Sharjah dual decision making makes inefficient HRM practices and causes delay in decision making.
High turnover has higher than monetary cost in terms of higher non monetary cost- retraining cost, motivation and workplace morale.
It has defined employee retention – is a voluntary act on the part of employees to remain in a company- it is the converse of employee turnover and attrition. It has explained turnover is of two types – Involuntary (on the part of the employer) and voluntary (on the part of the employee). Further, voluntary turnover is divided into avoidable and unavoidable.

12. E.Elwood Ford (1964) in his Master’s Thesis from University of Richmond, Virginia UR Scholarship Repository on 1-1-1964 “Stock ownership plans for employees” in the faculty of the school of Business Administration, in his thesis he has discussed two types of stock ownership plans 1) Stock Purchase Plans and 2) Stock Option plans. In Stock Purchase Plan more and more employees are given direct ownership in shares where they were employed whereas in Stock Option Plans were given to high level employees mainly to take advantage under Federal Income Tax. In his thesis he stated that on 17th December 1956, Mr. Keith Funstan, President of New York Stock Exchange, said that giving company’s share to its employees is giving more and more Americans direct ownership in business system-bringing nearer to true democracy. Nearly forty percent of all domestic companies stock listed on the New York stock exchange adopted stock purchase or stock option plans within the nine year period from 1947 to 1957. In his thesis concern has been raised regarding the employee having less duty/responsibility in company but invested in money companies stock particularly at the time of retirement he cannot invest everything in one company instead of spreading his risk. Again there is no guarantee in Income and risk is associated with stock. It is mentioned that as it gives confidence amongst employees, employee loyalty and faith in private enterprise economy when companies are earning profit, stock market prices are rising but company’s are running losses as in 1920’s and 1930’s, it created disappointment and antagonism and one of the vice president of a company stated “we never had an employee stock purchase plan, thank God.” Hence it is stated that employees should be informed about all pros and cons of stock ownership plan and Securities and Exchange Commission does not fully cover all the problems involved in it. It is stated that companies like
American Telephone and Telegraph Company, Commonwealth Edison Company, Chesapeake and Chio Railway Company gave stock purchase plans at lower than market price as well as helped employees by giving loans to its employees for purchase of stock option. He has given many examples of companies by which management is making clear the risk in taking companies stock like General Motor Corporation stating “No one will urge them to take part in this program. The decision to do so will be entirely their own.” In his thesis he includes a summary of companies who issued a stock purchase plan which were listed in 1947 to 1955 on New York Stock Exchange.

The main objective of Stock Option Plans that was mainly instead of giving cash award, stock option is given. It benefits the company as it did not involve corporate expenditure, brings more funds for business as well as employee’s investment in stocks which is otherwise not possible due to high cost of index and less saving. He explained that frequent changes in Federal Income Tax like treating income at the time of stock option exercised, granted or sold, as well as whether to treat as capital gain or as ordinary income, time for which employee should work in company, time for which stocks cannot be sold in market made it difficult for companies to issue Stock Option Plan. It discussed concern of minority shareholders regarding granting of stock option to employees as it amounts to reduction in earnings per share, doubt regarding the necessity to give option to employees already working well for the company.

Finally in the last chapter he has income tax law and new rules of Revenue Act 1964, which gave benefits of stock option plan.

13. Zhibiao Zhu, James Hoffmire, John Hoffmire, Fusheng Wang (2013) in their article published in International Journal of Business and Management Invention August 2013 “Employee Stock Option Plans & their effects on productivity: The case of Huawei” stated that ESOP incentives for productivity are extremely intuitive. First Pierce et al (1991, 2001) proposed that ESOP have a psychological effect on employee attitudes. Through experiencing partial ownership, employees gain a sense of pride in their company and allow it to become part of their
identity, thus allowing employees to be emotionally invested in their company. Second the ESOP creates financial incentive for employees to be productive. It leads to an increase in general employee interest in the enterprise leads to more active participation and involvement in productivity enhancing activities as quality-control (QC) circles as well as smoother and less costly collective bargaining. Third, in order to fully benefit from ESOP employees usually must stay with their company for a number of years.

Authors compared Huawei and ZTE (Zhongxing telecom Equipment) companies. He stated that Huawei was established in 1988 and implemented ESOP in 1990, as the company wanted money for marketing and expansion, by which company granted 15% stocks to its employees. In ZTE company only senior managers were allotted ZTE shares. They used the absolute indicator to measure productivity used is TOTAL ASSET TURNOVER (TATO), it being determined by sales divided by total book assets. Huawei consistently maintained higher employee productivity than ZTE and much higher employee productivity than average telecommunications equipment industry in China. Secondly Sales per employee was used as a relative indicator to measure productivity growth. Huawei productivity growth shows an increase of 56% from 2006 to 2010 while ZTE only 24%. Authors analyzed productivity change in both companies on three fronts 1) General company management 2) Technology 3) Political connection. Authors concluded that across all these factors Huawei does not have any advantage and both companies were more or less on the same grounds and these factors were not responsible for Huawei’s higher productivity. So in conclusion Huawei has significant advantage because of its ESOP. Thus ESOP contributed for Huawei becoming bigger and profitable with the employees acquiring benefits from ESOP and motivation to enhance productivity.
2.3 ESOP AT NATIONAL LEVEL:

14. C.A. Sanjoy Banka (April 2006) in his article “ESOP Schemes- An Insight” explained that ESOP creates an excitement and hope among employees to become millionaires like shareholders of Infosys and Wipro. ESOP is a tool to reward and motivate employees. He explained that it is used to attract and retain the best talent and to ensure employee commitment. He has explained that SEBI guidelines and trust route can be used for issuing ESOP. He has explained accounting treatment of ESOP i.e. intrinsic value or fair value method as well as tax treatment of ESOP in the hands of company and employee. He has also explained that ESOP schemes have an inbuilt uncertainty due to fluctuating stock market prices. It is observed that offering ESOP linked to market prices is not generally effective, as option may turn out to be worthless in case of downturn in stock market.

15. Brijesh Kumar Goswami, Sushmita Jha (April 2012) in their article “Attrition issues and retention challenges of employee’s have discussed that success of the company depends on retention of employees. It has discussed factors affecting attrition like salary paid, lack of career mobility and challenges, working environment, high level of stress and lack of work life balance, lack of confidence in supervision, lack of role clarity, proper feedback etc. It has discussed impact of attrition- direct, indirect. It has given recommendations for effective retention, which includes issue of employee stock option plan, stock appreciation rights, sweat equity, golden handcuffs and retention bonus amongst others.

16. H. Padamchand Khincha and P. Shivanand Nayak C.A. 145( 2011) in 43-B BCAJ journal article “Deductability of discount on ESOP-an analysis” have explained importance of issuing ESOP in motivating employees and increasing sense of belonging of employees towards company and employer. In this article the authors explained the importance of a guidance note and its recommendatory nature issued by ICAI by giving various cases of courts cases. It has discussed
accounting policies laid by SEBI and also accounting entries to be passed over life of ESOP. The article also referred to OECD, FASB and IFRS treatment regarding treating ESOP discount as a revenue expense. The authors have discussed examples of differ court cases where ESOP discount is revenue expenditure and allowable under Income Tax Act.

17. **Dr. Ratna Sen (August 2012)** in his article “Employee Participation in India” in Industrial and Employment relation Department International Office Geneva, in his paper is one of a series of national studies on employee participation practices in Asia, provides an in-depth analysis of employee participation in India, various efforts made by Indian companies and Government of India for implementing employee participation. The author has chosen companies in eastern India (West Bengal) and in western India (Maharashtra) for his study purpose. The author studied companies like Mahindra & Mahindra- Kandivali plant, Bharat Petroleum Corporation, Mumbai and Acclaris India, Kolkata, Eastern Coalfields Ltd, Asansol, Jayashree Textiles, Rishra, and United Bank of India, Kolkata and different employee participative schemes adopted by them, HR policies, employee strength. The author concluded that involvement or consultative schemes related to safety and welfare and shop floor and work related categories predominate with less evidence of plant-related or policy issues. Companies have established formal systems voluntarily though each may have diversified structure, forms, levels, issues. The author has finally grouped schemes in three categories-
  1) Communication or information 2) Involvement for increasing productivity 3) Real participation in the Board of directors.

18. **Satyajeet Dhar and Subhbrta De (2009)** in Journal of Business and Economic Issues Vol 1 No. 1 January 2009 in their article” ESOP Accounting in India: Measurement and disclosure issue” have discussed features of ESOP, different types of ESOP- Compensatory and Non compensatory plan, fixed and variable price plan, Employee Stock Purchase plan, Restricted Stock Units, Stock
Appreciation Rights, Performance Share plan, Performance Unit Plan, Deferred Compensation Plan. The authors have discussed ESOP benefit for both company and employee. The article studied ESOP accounting practices in USA as well as in India. The authors displayed journal entries to be passed as per USA accounting standard. They have surveyed data for 2002-03 and 2006-07 in respect of quality of disclosure, area of diversity, extent of adoption of SEBI guidelines, adoption of fair value method of accounting by sample companies from BSE and came to the conclusion that there is no uniformity in disclosure in accounting due to lack of standard by ICAI. They finally stated that Indian companies from 2011 have to adopt for fair value accounting since application of IFRS 2.

19. **Kavita Jain, Preeti Jain (2013)** in their research article entitled “Job satisfaction: comparative study of public and private banks” in Volume 2 Number 1 Jan–Mar 2013 of International Journal of Organizational Behavior & Management perspectives first discussed the importance of employees in today’s globalised market. It stated that Job Satisfaction is an internal feeling of employees, a combination of psychological, physiological and environmental circumstances that causes employee to be job satisfied. In a review of literature he discussed that there are so many determinants like good remuneration, promotional opportunities, job security, incentives and rewards, job involvement, job enrichment, working conditions, skills and abilities, work activities, supervision, relationship with coworkers, job suitability. Reviewed articles discussed impact of age, gender, occupational level, education, economic background on job satisfaction. The authors have reviewed articles of job satisfaction in Turkish society as well as in Pakistan in private banks.

In their article they have studied employee management relationship, nature of job and working conditions effect on job satisfaction and suggested measures to improve upon jab satisfaction. They have applied t-test and frequency analysis.
and suggested good remuneration, promotional opportunities, job security and working conditions have effect on job satisfaction.

20. **Premal Shah (2008)** in her research article ‘Analysis of Employee Stock options and Guaranteed Withdrawal Benefit for Life’ has studied the problem of pricing Employee Stock Option from the point of the issuing company. The author mentioned that Black and Scholes proposed to price a stock option based on the price of the underlying stock. They provided a way to price an option as well as method to “hedge” out and to eliminate the risk of holding or underwriting option. They explained that this theory assumes that markets are complete and they do not face constraints in buying and selling the various instruments. In this thesis the author examined two problems in pricing derivatives in “incomplete” markets. They have examined how the presence of other ESO in an employee portfolio can affect the exercise decisions concerning ESO and thereby cost to the company. Moreover, the employing company would realize the cost of this pay only in the event of its stock performing well. The author stated that ESOs actually amount to a significant liability on companies balance sheet, which amounts to transfer of value from the shareholders to the employees. The author mentioned that there is no consensus in literature or in practice about what is fair cost of ESOs. However FASB, IASB and other regulatory bodies have laid down broad guidelines in this respect. Even Securities and Exchange Commission Bulletin guideline state that price of ESO must be based on sound financial economic theory and be generally accepted. True ESO cost lies between its intrinsic value and the Black-Scholes value. The author developed a framework to model ESO exercises so as to estimate the cost of outstanding ESOs on a company balance sheet. Further it stated that employee exercise ESOs in an “all or none” fashion. While ESOs can be partial or in lots and at given point of time ESOs with varying strikes, expiries and vesting dates. The author stated that ESOs need to be priced not one by one but as an entire portfolio of options held by a particular employee. ESOs cost will not be linear. The author has developed a model with risk-management based framework to make decisions, the employee treats her ESO portfolio as an
investment portfolio and rebalances it periodically to manage associated risk that cannot be hedged. Finally they developed a myopic risk management based framework, which takes into account risk / level of barrier function which depends on time value of option. They have showed that neither would a risk averse employee exercise all her options at the same time nor would the cost of a portfolio of options be equal to sum of its parts.

The author has also priced Guaranteed Withdrawal Benefit for which they used Black Scholes model for asset prices, then price GWB in a more realistic setting using models that allow interest rates and equity market volatilities to be stochastic. They found that accounting for these additional risks can alter valuations significantly. They have suggested that regulators and investors must lay down standards for valuation of complex securities like GWB.

21. **Biju Varkkey and Rupa Korde (2013)** in their Research Paper Exploring Job Satisfaction in India using Paychck India Survey data said in an introduction that Job Satisfaction is a measure of how content an employee is with his job. It is emotional attachment/ detachment one has with a job as well as the extent of satisfaction derived from a job. In its literature review they have given references of Elton Mayo and Fritz Roethlisberger (1927), suggested ways and means to increase productivity of employees. They studied the effect of external environment and relations with coworkers on productivity. The author stated that authentic data on Indian labour market is limited and hence job satisfaction cannot be studied. For their research they relied on data collected from Paycheck India during 2009 to 2012 and a questionnaire was uploaded on the web site. Analysis of job satisfaction was done with both single variable and multivariate factors. Researcher has compared satisfaction with job, pay, contract, job security, pay, allowances, welfare provisions, relationship with colleagues at work, superiors at work, work environment, working hours and commuting time, household income and combination of work and family. They have compared with dis-satisfied points also. The main conclusion was that even job satisfied workers have
increased but regarding pay employees are percentage has reduced. Researcher has taken multivariate factors – internal (not affected by employers decisions), external( affected by employers decisions). These are personal factors- age, gender, marital status, employee having children or expecting children; workplace factors- public or private sector, job level match educational level, position in occupational hierarchy; time related-time to commute to work place, required to work on Saturday, Sunday and in evenings. In each of these factors there is little change in satisfied employees whereas dissatisfied employees have increased by almost five percent. Similarly higher age bracket employees are more satisfied with work and at home than young employees who are facing pressures of competition, performance pressure and insecurity at multiple fronts.

22. **DR G. Sridharan and Amaravathi M. in Volume No 2 (2011) Issue No 6 (June)** in international Journal of Research in Commerce and Management journal stated in their article “ESOP DESIGN PRACTICES IN INDIAN IT & ITES PHARMACEUTICALS INDUSTRIES” which was prepared on secondary data like company annual reports, company website, NSE publications. The study was conducted in IT, ITES and pharmaceutical companies as ESOP was given in India in these companies as well as talented manpower requirement was more in these companies. The author have analysed data on the basis of the number of plans in 1999 to 2010, the number of plans per year, plan-wise analysis, ESOP to various categories of employees, valuation model adopted, route adopted for administration of ESOP, Pricing formulae adopted by companies, purpose of granting ESOP. They finally came to the conclusion that companies are yet to exploit the full potential of ESOP and ESOP will go a long way in serving as an effective tool of employee compensation, reward, motivation and retention.

23. **Rajeev Ranjan (2014)** in his Phd thesis in Business administration Aligarh Muslim Organisations in India: An Empirical Study” mentioned that a lot of study has been done on factors and causes of employee turnover and their retention but no study was done in respect of Non-profit making organization, and
this gap has been filled by him in his research paper. The author has classified employee turnover in two ways—Involuntary and Voluntary. Again Voluntary factors are classified as dysfunctional—turnover of valued employees and functional—turnover of substandard performers, further dysfunctional classified as avoidable and unavoidable.

Factors affecting employee turnover – low organizational knowledge, low employee morale, low customer satisfaction, high selection cost, high training cost (Staw, 1980; Talent Keepers, 2004), lower organizational performance (Glebbeek & Bax 2004; Huselid, 1995; Phillips, 1996). He has discussed factors of employee turnover and employee retention in general, then factors responsible particularly with non-profit organization and then factors particularly in relation to Indian scenario.

The author concluded that gender, experience in present position, total experience, country of origin, age of employees had an influence on job content and job context factors.

The author has conducted the following statistical method for his research analysis. The author has done data analysis with response rate and completion rate. Scales were tested for unidimensionality, reliability and validity. Exploratory Factor Analysis (EFA) was carried out to test if each of scale was one factor model. Unidimensionality and reliability of the scales have been assessed, convergent- to assess reliability or internal consistency and divergent validity – to assess that theoretically alike concepts are unrelated.

In order to ascertain differences among respondents on the study variables, independent samples T-test were carried out, one way ANOVA was also calculated. Test of association i.e. Chi–square test was performed to establish association between two factors.
24. **Dr. Poornima, Mr. K. Nithya Kak and Dr. K. Vidya Kak (2013)** in their research paper “Impact of Employees Stock option Plan on firm performance ……..Companies in India” published in Global Research Analysis International dated 8th August 2013 gave introduction to Employee Stock Option Plan from historical point of view and its relevance on company performance in present times. The main objective of the study was to examine if the firm size is associated with the impact of broad based stock options in Indian software companies. The authors compare the effect of firm size on performance potential of broad based stock options and their effect on firm productivity, return on assets, net profit margin and capital intensity. The data for study was taken from the Centre for Monitoring Indian Economy (CMIE) prowess data base with companies allotted ESOP between April 2000 to 2008. The firms were divided in three categories a) Small below 500 employees b) Medium (500 to 5000 employees) and c) Large above 5000 employees. The result of the study was

1) ESOP resulted in considerable growth in employees’ size

2) All three sizes of firm post ESOP has higher productivity, return on assets and capital intensity but no significant impact on net profit margin.

3) Increase in productivity is high in case of small size firm at mean 2.00 compared with large size company mean of 1.4 and medium size company mean of 1.2.

4) Return on assets decreased in small firms whereas increased considerably in medium and large sized firm.

5) Increase in capital intensity indicates firm started to intensify capital to increase productivity of employees.

6) The net profit margin did increase significantly but indicated other factors may intervene in earning of the company.
Newspaper articles:

1) Aon Hewitt survey states that in 2015 attrition levels are five year low at 16.30 per cent which is lowest since 2009. It has observed that highest increase in salary for start –ups in 2016. In service sector attrition rate is 19.3 per cent while manufacturing 12.2 per cent. Organisations are planning separate retention plans for their top talent by way of reward.

2) C.A. Bharat Talathi in BCAS Dec 2004 article ESOP and SWEAT equity shares discussed provisions under Income Tax Act, Companies Act and accounting of discount and concluded that these two are separately stated under companies act but under Income tax act there is no difference between two as sweat equity is not defined under Income Tax Act. Discount can be treated as revenue expenditure but if discount given before formation of company should be treated as deferred and to be amortised in five years.

3) As per Economic Times article dt 7th Sept. 2015 states that the Finance Minister has proposal that state owned companies have to offer Employee Stock Option (ESOP) instead of cash as part of variable pay. Due to the volatile market condition it is difficult for the government to have a disinvestment programme as estimated.

2.4. CONCLUSIONS:

Researcher while carrying out a review of literature on the topic of Employees Stock Option Plan following key points were observed:

1. Method for fixing exercise price should be near to market price on grant date.
2. Stock options are valued in U.S.A. according to intrinsic value method, however, it encourages companies to follow fair value method.
3. ESOP has mixed the effect on financial performance of company.
4. Reasons of employee turnover of having Stock Options received by them according to gender, age, qualification had been studied.
5. To control high employee turnover proper employment, promotion, retention policy should be developed in the company.
6. Fair value method of recording Employee Stock Option plan has reduced the number of ESOPs granted by companies.
7. Deferred compensation plan reduces voluntary turnover amongst employees.
8. In China ESOP has increased the operating performance of employee.
9. ESOP reduces the turnover temporarily in initial years.
10. Companies should plan proper retention policy to reduce employee turnover.
11. Factors responsible for employee turnover are discussed.
12. ESOP declaration depends on government legislation.
13. ESOP increases productivity of company.
14. ESOP accounting can be done either by intrinsic price or at fair value.
15. ESOP reduces employee attrition rate.
16. ESOP discount to be treated as revenue expenses and allowable under Indian Income Tax Act.
17. Employee participation in India has been analyzed.
18. Presentation of ESOP accounting in India.
19. Job satisfaction in Private and Public bank has been compared.
20. Employee turnover depends on different factors in addition to issue of ESOP.
21. ESOP practices in IT and pharmaceuticals in India compared.

It is observed that after going through both national and international literature and their conclusions that there is very limited study on the subject of effect of ESOP on financial statement and security premium. Review of literature at international level shows some study of effect of ESOP on retaining employees as well as causes of employee turnover. Studies reveal causes of employee turnover and ways to retain them in organization. There are studies relating to effect of ESOP on salary and its taxability under Indian Income Tax Act.

Hence researcher has made a comparative study of legal framework of Initial Public Offer and Employees Stock Option Plan, studied the effect of ESOP on financial statement and security premium- cash as well as non-cash component. Researcher has also evaluated effect of ESOP on motivating and retaining employees and also studied the effect of granting Employee Housing Option Plan on retaining employees.
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