CHAPTER VII

FINDINGS & SUGGESTIONS
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FINDINGS AND SUGGESTIONS

7.1 SUMMARY OF THE STUDY:
Employee Stock Option Plan is granted by many companies as tool for retaining talented employees in organization. This is granted to attract new employees from other competitor organization and also Employee Stock Option Plan is granted at the time of joining package as startups option. Employees are offered shares of company at lower than market price to be purchased by employees after minimum period of one year. By granting Employee Stock Option Plan both company and employees are at advantage. Company can retain its experienced and talented employees in company till shares are vested in employees. Employees benefit by purchasing shares of own company at much below market price. It is sweet jackpot for employees as employees gain by becoming part owner of company at price lower than market price. Employees are also benefitted by getting share in profit in company in form of dividend received from company every year till shares are owned by employees. Employees are benefited in form of long term capital gain when shares are sold after one year of holding period under present Indian Income Tax law.

Whatever may be purpose of granting Employee Stock Option Plan proper disclosure of transaction with employees should be reflected in financial statement. Companies granting employee stock option had to follow SEBI guidance as published from time to time and make disclosure in director report and financial statement. Company has to pass accounting entries according to accounting standards adopted by Institute of Chartered Accountants of India. Companies have to expense benefit to employees either at intrinsic value or fair value.

Employee Stock Option Plan affect directly on financial statement i.e. Balance sheet, Profit and Loss account and on Cash Flow statement, as by issue of shares affect on owners capital, affects profit and loss account by debiting employee expenses in all years and affect cash flow in year in which share option is exercised by employees. If shares
are issued at exercise price below market price, balance amount is treated as security premium to be bifurcated between cash and non cash security premium.

The study includes seven chapters. In the first chapter of “Introduction and Research Design”, discusses about meaning, importance and history of Employee Stock Option Plan, how research is carried out, what are objectives and problems of the research study, what is sample size and how samples are selected, and how title of the topic is justifies the purpose of study is explained.

The second chapter is “Review of Literature”. This chapter is divided in to two parts. First part of the chapter studies the review of studies conducted on employee stock option plan at international level. Second part of the chapter studies the review of studies conducted on Employee Stock Option Plan at national level. The purpose of this chapter is to understand the work done in the area of research and the extent the work done in area parallel to this research. Researcher found that Employee Stock Option Plan was granted recently particularly in IT industries since 1980. Hence very few researches was carried out in this area and hence researcher reviewed international articles related to effect of ESOP on productivity, fair value presentation etc.

The third chapter is “IPO and ESOP Regulation”. This chapter includes detailed procedure for issue of Initial Public Offer and Employees Stock Option Plan with reference to Companies Act 2013, SEBI guidelines, IFRS 2 and Ind AS 102 and comparison between IPO and ESOP formalities.

The fourth chapter is “ESOP impact on Financial Statement”. This chapter includes meaning, limitations of financial statements, analysis and findings of both primary and secondary data and testing of Hypothesis 1 with help of primary data.

The fifth chapter is “ESOP effect on Security Premium”. This chapter includes meaning, creation of security premium, accounting entries at the time of issue of ESOP and presentation in balance sheet of sample companies and testing of Hypothesis 2 with primary data.

The sixth chapter is “ESOP & EHOP effect on Employee Turnover”. This chapter includes meaning of employee turnover and Employee Housing Option Plan, effect of ESOP and EHOP on productivity and employee turnover. Hypothesis 3 and 4 are tested
in this chapter with the help of primary data and supported by secondary data of sample companies.

The seventh chapter is “Findings and Suggestion”. The chapter includes findings arrived from data analysis and interpretations. The chapter also includes suggestions given by the researcher based on findings of the study. The purpose of this chapter is to summarize the outcome of the study and create utility value of the research.

7.2 FINDINGS OF THE STUDY PRIMARY DATA:

7.2.1 Findings based on primary data:

The following are the findings of the study based on objectives and hypothesis using primary data:

7.2.1 (A) The first objective is related to the Study of the impact of Employee Stock Option Plan on Financial Statements of sample companies. As financial statement includes mainly Profit and Loss account and Balance Sheet, and items reflected in these statements, findings can be divided on the basis of Profit and Loss account and then on Balance Sheet.

Findings relating to Profit and Loss Account are as follows:

1. Profit or Loss of Company depends on productivity of employees. If productivity is higher it will increase profit and if productivity of employees is less its profit will be less or company may incur loss. All respondents agree that profitability depends on employee’s productivity, of all respondents 25% agreed with it while 75% strongly agreed with it.

2. Granting of ESOP is expenditure of deferred type as it is the difference between Grant Price and Market price of share. Employees receives shares at a predetermined price which is normally less than the Market Price and is therefore income for employees, hence, indirectly, it is expenses for the company. It is expenditure of a non cash nature. Findings shows that 41.70% respondents
disagree that ESOP reduces Salary paid to employees and only 16.30% agree that ESOP will reduce salary paid to employees. The balance respondents i.e. 41.70% are neutral about effect of ESOP on Salary paid to employees.

3. Employees are paid bonus, normally at Diwali, IId, Christmas, in addition to salary paid every month. 58.40% respondents replied that ESOP cannot be granted in place of Bonus, of 58.40%, 16.70% strongly disagreed and 41.70% disagreed with ESOP in place of bonus. Only 25% agreed or strongly agreed that ESOP can replace Bonus.

4. Increased profit after payment of tax and other provisions, increases earnings per share for the 91.70% respondents who agrees that due to motivated employees profit increases and ultimately earnings per share increases, out of 91.70%, 41.70 % strongly agrees and others 50% agree with it. Balance 8.30% are neutral to increase in earnings per share. However, no one disagrees that ESOP increases Earning per share.

5. Dividend for company is paid out of earning per share after utilizing money as per Companies Act provisions, hence 75% respondents agreed that dividend will increase due to motivated employees, 16.70% disagreed and 8.30% were neutral about it.

6. 100% of management agrees that productivity of business depends on employees and 75% out of it strongly agrees with it.

7. 100% management agrees that profit increases if employees are motivated and out of this 75% strongly agrees that profit increases if employees are motivated.

Hence on the basis of the above mentioned findings, it is clear that the majority of the respondents believe that

a) Profitability depends on productivity of employees.

b) ESOP does not reduce Salary paid to employees.

c) ESOP cannot be given in place of BONUS.

d) ESOP increases EPS.

e) ESOP increases Dividend.

f) Productivity of business depends on employees.

g) Profit increases, if employees are motivated.
Findings relating to **Balance Sheet** are as follows:

1. Net worth of company is calculated by reducing outside liabilities from total assets. Net worth includes shareholders’ fund and when ESOP is granted and finally exercised by employees it will increase shareholders’ fund. Hence, 41.70% respondents agreed that it will have an effect on the net worth of the company and the balance 58.30% were neutral about the effect of ESOP on net worth.
2. 33.33% respondents disagreed, 33.33% were neutral and 33.33% agreed that ESOP will have an effect on Deferred Assets of Company.

Hence, on the basis of above mentioned findings, it is clear that the majority of the respondents believe that

   a. **ESOP has an effect on the Net worth of a Company.**
   b. **ESOP may or may not have an effect on Deferred Assets of a Company.**

Findings relating to **Liabilities i.e. Share Capital, Ownership** of employees of a Company, Security premium, Cash Security Premium, Current liability of company are as following:

1. 75% respondents agreed that ESOP will increase Share Capital of Company and 25% respondents were neutral regarding effect of ESOP on Share Capital of Company. No one disagreed about increase in share capital of company.
2. 91.60% respondents agreed that ESOP increases ownership of employees of company, of which 33.30 strongly agree about increase in ownership of employees. Balance 8.30 % was neutral about increase in ownership of company. However, no one disagreed with it.
3. 58.30% agreed that ESOP will increase Security Premium of Company, 41.70% were neutral regarding increase in Security Premium of Company. However no one denied that ESOP will affect Security Premium of company.
4. 41.70 % respondents agreed that ESOP will increase Cash Security Premium, 41.70% were neutral and balance 16.30 either disagreed or strongly disagreed that ESOP will affect Cash Security Premium.
5. 41.60% respondents disagreed that ESOP increases Current liability of Company, of this 8.30% strongly disagree and 33.3% disagree with it. 16.7% agree that
ESOP increases Current Liability of a Company and the balance 41.70% were neutral about it.

Hence, on the basis of the above mentioned findings, it is clear that the majority of the respondents believe that:

a. *ESOP increases Share Capital of company.*
b. *ESOP increases ownership of employees in company.*
c. *ESOP increases Security Premium of company.*
d. *ESOP increases Cash Security Premium.*
e. *ESOP will not increase Current liability of Company.*

7.2 I) (B) The second objective is to study the impact of Employee Stock Option Plan on Security Premium. The findings are as shown below:

1. 83.30% agree and 16.70 are neutral about creation of security premium when shares are issued above face value. However no one disagreed with it.
2. 41.60% agreed and 33.30% disagreed that security premium is always created in cash, while balance 25% were neutral about it.
3. 66.70% agree and balance 33.30% were neutral that security premium is created when ESOP is given.
4. 83.40% respondents agree that ESOP increases perquisites of Companies and balance 16.70% are neutral about the increase in perquisites of companies.
5. 50% respondents agree that ESOP increases cash and bank balance of company and 16.60% disagree with it, whereas 33.30% are neutral about it.
6. 83.40% respondents agree that ESOP increases equity capital of Company and 16.70% are neutral about it.
7. 50% respondents agree and the balance 50% respondents are neutral about the increase of non cash expenses in case of ESOP.
8. 50% respondents agree and 8.30% disagree that ESOP increases deferred expenses of a company and the balance 41.70% are neutral about it.
9. 50% respondents disagree that ESOP does not disclose correct financial statement and 16.70 % agree with it, and the balance are neutral about it.
10. 50% respondents agree and 25% disagree that Security premium is equal to non cash security premium and the balance 25% are neutral about it.
Hence, on the basis of the abovementioned findings, it is clear that the majority of the respondents believe that:

a. *Security Premium is created when shares are issued above face value.*

b. *Security premium may or may not be created in cash.*

c. *ESOP will create security premium.*

d. *ESOP increases perquisites.*

e. *ESOP increases cash bank position of company.*

f. *ESOP increases equity capital of company.*

g. *ESOP may or may not increase non cash expenses.*

h. *ESOP increases deferred expenses of company.*

i. *ESOP does not disclose correct financial statement.*

j. *Security premium is equal to non cash security premium.*

7.2 I) (C) **The third objective** is to study the **impact of Employee Stock Option Plan on Employee turnover.** For this, the questionnaire was asked to both management and employees. The research findings of the third objective are shown below:

1. All companies do not give ESOP to employees but it is one of the methods to retain employees and the grant of ESOP enhance Company’s image is enhanced. 83.40% of management respondents agree that ESOP increases the image of the company. Out of this 50%, i.e. 41.70%, the respondents strongly agree, while the other half agree that ESOP increases the image of a company. The balance respondents are neutral about the enhancement in the image of the company. However, no management disagreed that ESOP does not increase the image of the company.

2. ESOP is granted to employees who normally remain in the company for certain number of years and hence it reduces employee turnover. 66.70% management respondents agree that ESOP reduces employee turnover, of this 25% strongly agree, 41% agree that ESOP reduces employee turnover. However, 8.30% do not agree that ESOP reduces employee turnover and balance are neutral about it.

3. ESOP is an incentive to make an employee remain in a company for a certain period for which 91.70% management respondents agree while the balance 8.30%
are neutral regarding an employee staying for a long period in the company. Again, no management disagreed that employee does not remain in the company for a long period.

4. Dissatisfied employees try to form trade unions, either recognized or unrecognized, but by granting ESOP the company creates a cordial relationship with employees and their Trade Union. For this, 33.30% management respondents agreed while the balance were neutral about it. However, no management respondents disagreed with it.

5. Payment of regular dividend increases the Market Price of the company’s share to which 50% management respondents are neutral but 33.30% respondents agree that it increases the Market Price of company’s share, but only 16.70% disagree that it will increase Market Price of Company’s Share.

6. ESOP gives an option to employees to become part owner of the company for which 91.70% respondents agree, out of this 25% strongly agree that it increases ownership amongst employees and the balance 8.3% are neutral about it. However, no management respondents disagreed that it increases ownership amongst employees.

Hence, on the basis of the above mentioned findings, it is clear that the majority of the respondents believe that:

a. **ESOP creates good image for Company.**

b. **ESOP reduces employee turnover.**

c. **ESOP makes employees to remain for certain period.**

d. **ESOP does not increase trade union activity.**

e. **ESOP may or may not increase company’s Market Price.**

f. **ESOP increases sense of ownership amongst company.**

**ESOP effects on employee behavior** and findings of it on the basis of management perception as reflected in the questionnaire were following

1. 100% management respondents agree that ESOP plays a positive role in enhancing employee productivity, out of this 50% strongly agree while the balance agree with it.
2. 100 % management respondents agree that ESOP increases morale of employees, out of this 58.30 % agree while the balance 41.40 % strongly agree with it.

3. 83.30 % management respondents agree that ESOP increases employee commitment, dedication and loyalty, out of this 33.30% strongly agree while the balance agree with it.

   16.70% are neutral about it but no one disagreed with it.

4. 41.60% management respondents disagreed that ESOP is preferred over Bonus, out of this 8.30% strongly disagree with it while 58.30 % were neutral about it. However, no one agreed that ESOP is preferred over Bonus.

5. 91.70% management respondents agreed that an employee gains a sense of pride in the company while the balance 8.30% are neutral regarding it. However, no one disagreed regarding an employee gaining a sense of pride in the company.

6. ESOP creates a sense of attachment for the near relatives of employees of which 25% management respondents agreed and 66.70% were neutral about it, while 8.30% disagreed that ESOP creates a sense of attachment for employee relatives.

7. 41.70% management respondents disagreed and 41.70% were neutral that ESOP reduces absenteeism of employees. Only 16.70% agreed that ESOP reduces absenteeism of employees.

Hence, on the basis of the above mentioned findings, it is clear that the majority of the respondents believe that:

a. **ESOP increases employee’s productivity.**

b. **ESOP increases employee’s morale.**

c. **ESOP increases employee commitment, dedication and loyalty.**

d. **ESOP is not preferred over Bonus.**

e. **Employee gains pride in company.**

f. **ESOP may or may not create attachment for employees’ relatives.**

g. **ESOP does not reduce absenteeism of employees.**
Similarly, the findings of an employee’s perception on employee turnover are as follows:

1. ESOP builds image about the Company and 87% of employee respondents agree that ESOP builds image about company, of this 33.30% respondents strongly agree to it and only 2.5% respondents disagree that ESOP creates image about company.

2. 50.30% employee respondents agree that ESOP reduces employee turnover, whereas 16.70% employee respondents do not agree that ESOP reduces employee turnover and balance 32.70% employee respondents were neutral about it.

3. 65.40% employee respondents agree that ESOP makes employees more regular in attending to work in an organization for the long term and 11.10% disagree with it, whereas the balance 23.50% were neutral about it.

4. 48.10% employee respondents disagree that ESOP reduces absenteeism of employees and only 10.50% agree that ESOP reduces absenteeism and balance 41.40% were neutral about ESOP reducing absenteeism.

5. 27.80% employee respondents disagree and only 19.80% agree that ESOP increases cordial relations with Trade Unions, whereas the balance 52.50% were neutral about it.

Hence, on the basis of above mentioned findings, it is clear that the majority of the respondents believe that:

a. ESOP builds image about company.

b. ESOP reduces employee turnover.

c. ESOP makes employees to remain in an organization.

d. ESOP does not reduce employee absenteeism.

e. ESOP does not increase cordial relations with Trade Unions

ESOP affects employee behavior and the findings of it on the basis of employee perception as reflected in the questionnaire were the following:

1. 82.70% employee respondents agree that ESOP increases employee productivity, 6.80% disagree and balance are neutral about enhancing employee productivity.
2. 87% employee respondents agree that ESOP boosts employee morale, 3.10% disagree and balance 9.90% are neutral about ESOP boosts employee morale.

3. 77.70% employee respondents agree that ESOP increases commitment, dedication and loyalty of employees, 6.20% employee respondents disagree about it and balance 16% are neutral about it.

4. 78.40% respondents agree that ESOP creates sense of pride about company and 3.70% disagree about it and balance 17.90% are neutral about it.

5. 27.80% employee respondents agree and 22.50% employee respondents disagree that ESOP has attachment for near relatives of employees with the company and the balance 48.80% are neutral about it.

6. 71.70% employee respondents agree and 9.90% disagreed that ESOP creates attachment for the company, whereas the balance 18.50% are neutral about it.

Hence, on the basis of the above mentioned findings, it is clear that the majority of the respondents believe that:

   a. ESOP increases employee productivity.
   b. ESOP increases employee morale.
   c. ESOP increases employee commitment, dedication and loyalty.
   d. ESOP creates sense of pride about company.
   e. ESOP may or may not create attachment for near relatives for the company.
   f. ESOP makes employees feel that the Company is like their own company.

7.2 I) (D) The fourth and final objective is to study the impact of Employee Housing Option Plan on employee turnover. The research findings for the fourth objective are shown below:

   1. 78.40% respondents agree and 6.20% respondents disagree that Employees Housing Option Plan increases motivation of employees and the balance 15.40% are neutral about it.
   2. 56.80% respondents agree and 12.90% respondents disagree that Employees Housing Option Plan will increase productivity of employees, whereas 30.20% are neutral about it.
3. 84% respondents agree and 2.5% disagree that housing near place of work increases productivity of employees and the balance 13.60% are neutral about it.
4. 52.40% respondents agree and 20.40% disagree that EHOP increases punctuality of employees and the balance 27.20% are neutral about it.
5. 46.30% respondents agree, 16.70% disagree that EHOP will increase the financial burden of employees if rent is collected from employees, while the balance 37% are neutral about it.
6. 48.80% respondents agree and 12.90% disagree that EHOP increases the financial burden of employees if HRA is not given to employees, whereas 38.30% are neutral about it.

Hence, on the basis of the above mentioned findings, it is clear that the majority of the respondents believe that:

a. *EHOP increases employee motivation.*

b. *EHOP increases employee productivity.*

c. *Housing near place of work increases employee productivity.*

d. *EHOP increases punctuality amongst employees.*

e. *EHOP will increase financial burden of employee if rent is collected from employees.*

f. *EHOP will increase financial burden of employees if HRA is not given to Employees.*

7.3 FINDINGS OF THE STUDY SECONDARY DATA:

Following are the findings of the study based on objectives and hypothesis using secondary data

7.3 A) First and Second Objectives:
In relation to the first objective, the Review of Literature has been discussed in Chapter II and for the second objective – legal formalities in relation to IPO and ESOP – the literature shows that a minimum of 6-8 months are required for IPO legal formalities, whereas ESOP requires 1-2 months for granting Shares. Shareholders General body and
Board meeting are required to approve IPO, whereas for ESOP only the approval of Shareholders resolution is required. In the case of IPO, co-ordination with different agencies like Registrar to Issue, Advertising & PR Agency, Printers, Escrow collection bank to Issue, IPO grading Agency, Monitoring Agency, Syndicate members, Stabilizing Agents, Underwriters is necessary. No such agencies are required in the case of ESOP. Minimum subscription condition required, no such minimum subscription required in ESOP. Listing of IPO is required, whereas in the case of ESOP only information to the Stock Exchange has to be provided.

Hence, researcher has concluded that legal formalities of IPO issue are more cumbersome than the issue of ESOP.

7.3 A 1) Objective 1: ESOP effect on Financial Statement:
Financial Statement of Company includes Profit and Loss Account, Balance Sheet and Cash Flow statement. Profit and Loss Account gives overall result of the company in the form of net profit or loss, which is arrived at by reducing business expenses like cost of material, employee expenses, other expenses, depreciation etc. from total income i.e. mainly sales and services.

Share Capital is part of the balance sheet, representing contribution made by owners of the company. Owners of the company are those who subscribe for shares of the company. Share capital is raised mainly to start or form company, purchase fixed assets and to fund working capital of company.

In case of ESOP, the company grants an option to employees to subscribe for shares after fulfilling a predetermined condition at predetermined prices. The main object of granting ESOP is to retain employees in the company for a longer period. Once this purpose is fulfilled, it has an effect on the share capital, i.e. it increases share capital. It increases the number of shareholders as well as the amount of share capital. It results in reducing the percentage of old shareholders.

Researcher has observed the effect of ESOP on each of the companies’ Share Capital & Shares, who have given ESOP to its employees.
1. Assuming 2011 as the base for all companies, it can be seen that in the case of L & T Ltd, the employee percentage in the total share capital has increased. It has increased incrementally from 1.09% to 1.66% then 2.14% till 2013. But in 2014, because the company issued bonus shares, it brought it down to 1.77% and again increased to 2.05% in 2015. As the employees’ share increased, other shareholders shares reduced from 100% in 2011 to 97.95% in 2015.

2. In the case of L & T Finance Ltd, the employee percentage in the total share capital has increased in the year in which ESOP is exercised by employees. It has increased from 0% in 2011 to 0.001% in 2012, 0.118% in 2013, 0.216% in 2014 and 0.322% in 2015. Hence, employee share is increasing year after year while other shareholders’ share is reducing from 100% in 2011 to 99.678% in 2015.

3. In the case of Tilaknagar Industries Ltd, the company has given ESOP and exercised by employees year after year which increased 0.006% in 2011 to 0.388% in 2012, 1.926% in 2013, 3.424% in 2014 and 4.190% in 2015. This has resulted in reducing other shareholders percentage from 100% in 2011 in the beginning of the year to 95.810% in 2015.

4. In the case of Tech Mahindra Ltd, the employee percentage increased to 2.93% at 2011, 4.10% in 2012, in the two years that the company issued ESOP to its employees. Hence, other shareholders percentage reduced from 100% to 95.90% till 2012. However, from 2013 due to amalgamation with Satyam Ltd, the employee percentage has reduced.

5. In the case of Shoppers Stop Ltd, the employee percentage has increased from 0% in 2010 to 0.41% in 2011, 0.88% in 2012, 1.38% in 2013, 1.66% in 2014 and 1.84% in 2015. Consequently, other shareholders percentage reduced from 100% to 98.16% in 2015.

6. In the case of MT Educare Ltd, the employee percentage has increased in 2012 and reached 0.40%, 0.94% in 2014 and 0.97% in 2015, it was reduced in 2013 as other shares were issued by the company. Hence, other shareholders shares reduced from 100% to 99.03% in 2015.

7. In the case of DCB bank, the employee percentage has increased from 0% in 2010 to 0.09% in 2011, 0.16% in 2012, 0.21% in 2013, 0.29% in 2014 and 0.71% in 2015.
2015. Consequently, other shareholders’ percentage reduced from 100% to 99.29% in 2015.

8. In the case of Ashapura Minechem ltd there is no change in the share capital.

**Hence, it is concluded that,**

1) Exercise of ESOP increases employee percentage of total number of Shares & Share Capital.

2) Other shareholders percentage is reduced.

### 7.3.A 2) Effect of ESOP on Deferred Assets and Current Liability:

Employees Stock Option Plan is a privilege given to employees to purchase companies’ shares at a Price which is lower than the Market Price. The difference between Market Price and Exercise Price is considered as a discount or benefit to employees. This discount is recorded in the company’s books not as discount but benefit given to employees as Employee Compensation expenses. Employee can exercise his option to purchase the company’s share normally within one to three/four years period. Hence, Discount given to employees is to be written off in a three/four year period and is to be treated as Deferred Expenses/ assets. Since shares are not immediately given to employees, the discount is also treated as liability and shown on the liability side of the balance sheet under the heading of Employee Stock Option Outstanding account. As and when actually the shares are issued, the amount is utilized from this account.

It is observed during the research that the treatment given by sample companies in the given five years’ period.

1. L & T Ltd issued ESOP in all five years but it seems that it has not utilized Employee Stock Option plan, as there is no change in both Deferred Expenses account as well as in Current liability account. But from 2012 to 2015 it seems the company has provided for employee expenses and credited to Employee Stock Option Account. Similarly, as the company’s employees had exercised ESOP, hence both deferred expenses and employee stock option account are reduced to that extent in the last four years.
2. L & T Finance Ltd has created Employee Stock Option Outstanding account whenever ESOP is granted and debited this account whenever ESOP is exercised by employees. The company has not created Employee Compensation / Deferred Expenses account from 2012.

3. Tilaknagar Industries Ltd has reflected Employee Stock Option Outstanding account as net figure for all years and hence the difference in account is considered as a assumption, as transferred from employee expenses account from profit and loss account.

4. Tech Mahindra Ltd has not followed consistent policy of disclosure, may be due to amalgamation.

5. Shoppers Stop Ltd did not create any deferred expenses account or employee stock option outstanding account, which indicate that the company has considered the difference in the year of exercise or that ESOP is issued at the market Price.

6. MT Educare Ltd also issued ESOP but created Employee Stock Option Outstanding Account in 2012 but thereafter it is reduced, may be due to cancellations. The company is not following a consistent policy regarding granting of ESOP.

7. DCB Bank has issued ESOP every year but full disclosure is not available regarding ESOP in respect of Employee stock Option Outstanding account and Employee Deferred compensation Account.

8. Ashapura Minechem Ltd has written off the balance in Employee Stock Option Outstanding account, as ESOP is not granted in five years.

Hence, it is concluded that,

1) Deferred Employee Compensation Expenses and Employee Stock Option Plan is created when ESOP is granted to employees to the extent of difference in Market Price and Exercise Price.

2) For the year in which ESOP are exercised, the amount is transferred from Employee Stock Option Account to Security Premium Account.

3) Employee Expenses are treated as direct expenses instead of considering as deferred expenses.
4) ESOP expense is considered as direct expenses in profit and loss account instead of treating as deferred expenses.
5) Companies are issuing ESOP at Market Price instead of giving at discount price.
6) Each Company follows a different method of disclosure regarding granting and exercise of ESOP.
7) Companies are following different disclosure policies in respect of ESOP.

7.3. B ) Objective 2: ESOP effect on Security premium:

Security Premium amount is money received over and above the face value of a share, it is a capital receipt. In case of new issue of share capital, if the amount is received in installment i.e. on application, allotment, 1st call, 2nd call, etc., the security premium money should be received only in cash and once received, the amount cannot be returned in case of forfeiture of share. Similarly, Security Premium money is not free reserves and cannot be used freely. It can be used only for issue of fully paid bonus shares, for writing off share issue expenses and writing off of premium on redemption of preference shareholders and debentures and writing off preliminary expenses.

It is observed during the research that the effect of ESOP on Security premium in the case sample companies.

1. L & T. Ltd has received security premium on issue of ESOP which is credited to Security Premium Account. Security Premium amount is varying in each year ranging from Rs 717 per share to Rs 1034 during five years. The company has utilized Security Premium for Bonus shares, which are issued in 2014. The company has utilized Security Premium for writing off Share Issue Expenses.

2. L & T Finance Ltd has ESOP in 2013, 2014 and 2015 on which Security Premium of Rs 43/- per share has been collected. In the first year ESOP is not exercised and hence no Security Premium received, but in the second year even though ESOP is exercised Security Premium is not received or data does not contain amount received on issue of ESOP. The company in 2012 to 2015 utilized Security Premium for writing off Share Issue expenses.
3. Tilak Nagar Industries Ltd has issued ESOP every year and also received Security Premium every year, Security Premium received was Rs 79/- to Rs 3/- per share. The company has utilized in 2011 the Security premium for Issue of bonus share.

4. Tech Mahindra has issued ESOP in the first two years and thereafter due to amalgamation ESOP are not issued but new shares are issued at premium. Similarly, Employees stock Option outstanding amount is transferred in the last three years to Security Premium account. The company also utilized security premium for writing off share issue expenses in 2014 and 2015.

5. Shoppers Stop Ltd issued ESOP for all years and also received Security Premium for all years. The company has received Security Premium on issue of new shares in 2011. The company has utilized Security Premium for share issue expenses in 2011.

6. MT Educare Ltd issued ESOP in 2012, 2014, 2015. For all these years the company has received Security Premium which was credited to this account. It has received Security Premium on issue of new shares in year 2013. The company utilized Security Premium in 2011 for issue of Bonus Share.

7. DCB Ltd bank also issued ESOP for all years and received Security Premium in all years. Security Premium is increasing year after year since 2011.

8. Ashapura Minechem Ltd has not issued any ESOP but issued new shares in 2013 and 2014, due to which the Security Premium has increased.

**Hence, it is concluded that,**

1) Security Premium is created when new shares are issued over and above face value of shares.

2) Security Premium is also increased due to amalgamation of two companies.

3) Security Premium is utilized for issue of Bonus shares

4) Security Premium is utilized for writing off share issue expenses.

5) Security Premium increases year after year unless it is utilized as per Companies Act.
7.3 C) Objective 3: Effect of ESOP on Employee Turnover:

Success of business depends on human resource management of any company. Human resource management includes selection, training, promotion, policy regarding salary, perquisites and benefits to employees, including post retirement plans. Employees are satisfied if these policies are laid down properly and they are implemented judiciously. Satisfied employees stay in one organization for a long period which results in increasing sales and profit.

It is observed during the research that the effect of ESOP in the case of sample companies.

1. L & T Ltd shows that the average sales per employee has increased from Rs 11,535 to Rs 20,871 and its net profit per employee has also increased from Rs 987 to Rs 1080 from 2011 to 2015 respectively.

2. L & T Finance Ltd shows that average sales per employee has increased from Rs 12,635 to Rs 20,654 and net profit per employee from Rs 2,355 to Rs 2,848 from 2011 to 2015.

3. Tilaknagar Industries Ltd shows that average sales per employee has increased from Rs 6,703 to Rs 12,387 and net profit increased from Rs 565 to Rs 832 from 2011 to 2014.

   (Net loss for 2015)

4. Shoppers Stop Ltd shows that average sales per employee has increased from Rs 5,039 thousands to Rs 9,893 thousands and net profit per employee from Rs 100 to Rs 98 from 2011 to 2015.

5. MT Educare shows that total sale was increasing from Rs 1,055 thousand to Rs 2,018 thousand in 2011 to 2014.

6. DCB Bank sales increased from Rs 5,363 thousands to Rs 14,224 thousands in 2011 to 2015.

7. Ashapura Minchem Ltd Net Sales has increased from Rs 6,356 thousand in 2011 to Rs 10,832 thousand in 2014.

   **Hence, it is concluded that,**

1) Average Sales per employee has increased in five years.
2) Average Net Profit per employee has increased in all companies after issue of ESOP.

3) Total sales have increased year after year.

7.3 D) Objective 4: Effect of EHOP on Employee Turnover.
A satisfied employee is an asset for any company, which reduces attrition rate and cost of recruitment, training, wastage and increases goodwill for company. One of the essential needs of any employee after food and clothing is shelter. Food and clothing can be fulfilled by providing good salary package, whereas the third need can be provided by the employer by making provision for housing. Hence, Employee Housing Option Plan can be prepared by which an employee may opt for housing benefit after remaining in the company for a certain number of years.

Air India Staff Quarters Santacruz, BEST Colony Wadala, Santacruz, Godrej Colony Vikhroli, Western Railway Colony, Bombay Port Trust Colony Worli, Wadala, NRC Colony, Ambivali Kalyan, Tata Colony, Century Textiles & Industries, MTNL Colony, Government Colony Bandra, RBI Colony Santacruz, IDBI Colony Santacruz, are all good examples of providing housing facilities for its employees.

Following are some of the companies providing housing for their employees:

1. Tata townships at Jamshedpur, Mithapur, Babrala, Mathigiri Hosur are the first one to have colonies for employees. Jamshetji Tata in 1902 wrote to his son Dorab Tata regarding a city for his workers “Be sure to lay wide streets planted with shady trees, every other quick growing variety. . . . reserve large area for football, hockey parks. Earmark areas for Hindu temple, Mohammedan mosque, Christian Church”

2. Sanjiv Paul, Vice President, Corporate Services, Tata Steel says “Tata Steel attracts the best talent in the country because of the lifestyle provided in this oasis in the middle of nowhere”.

3. Hari Krishna Exports, Surat based diamond manufacturing company has given Rs 4 lakhs each to 1268 employees to buy cars, flats, jewellery. The Managing Director, Savji Dholkia, said this will boost their morale and encourage them and others to work hard.
4. Toyata Kirloskar Motor is planning to buy 15 acres near its factory in Bidadi, said Shekhar Vishwanathan, Deputy MD of the company.

5. TVS group is said to be coming up with low rise apartments on 22 acres plot at Oragadam near Chennai.

6. One of the responses by Pramod Gokhale on 5th Nov 2011 says, “Housing colonies for workers by the employing companies are really worth and practical social responsibility. I appreciate the dynamic promoter CEOs for implementation of these schemes. Nowadays, it is difficult to buy flats in big cities. Let us continue such schemes”

**Hence, it is concluded that**, EHOP will motivate employees and reduce employee turnover.

### 7.4 CONCLUSIONS OF THE STUDY TESTING OF HYPOTHESES:

The interpretations and conclusions drawn on the bases of the testing of the hypotheses are given here below.

1. **Hypothesis I** is to test significant impact of Employee Stock Option Plan on financial Statements of sample companies. To test this hypothesis researcher initially tested data for normality. It is observed that, significant p value for k-s test 0.200 is greater than 0.01 which clearly indicates that data impact of Employee Stock Option Plan on financial Statements of sample companies is approximately normally distributed. Hence researcher has used **parametric one sample ‘t’ test** for testing significance impact of Employee Stock Option Plan on financial Statements of sample companies. From the above table it is observed that ‘t’ value for null hypothesis is 7.23 which is greater than +1.80 (also greater than +2.76). Also p value is 0.00 which is less than 0.01. Hence null hypothesis is rejected at 5% & 1% level of significance. On the basis of above data it can be inferred that **there is significant impact of Employee Stock Option Plan on financial Statements of sample companies.**
2. **Hypothesis II** is to test significant effect of Employee Stock Option Plan on Non Cash Security Premium. To test this hypothesis we initially tested data for normality. It is observed that, significant p value for k-s test 0.200 is greater than 0.01 clearly indicates that data related to effect of Employee Stock Option Plan on Non Cash Security Premium is approximately normally distributed. Hence we use parametric one sample ‘t’ test for testing significance effect of Employee Stock Option Plan on Non Cash Security Premium. It is observed that ‘t’ value for null hypothesis is 4.73 which is greater than +1.80 (also greater than +2.76). Also p value is 0.00 which is less than 0.01. Hence, researcher has rejected null hypothesis at 5% & 1% level of significance. On the basis of above data it can be inferred that **there is significant effect of Employee Stock Option Plan on Non Cash Security Premium.**

3. **Hypothesis III** is to test significant impact of Employee Stock Option Plan on Employee Turnover. To test this hypothesis researcher initially tested data for normality. It is observed that, significant p value for k-s test 0.131 is greater than 0.01 clearly indicates that data related to impact of Employee Stock Option Plan on Employee Turnover is normal. Hence we use parametric one sample ‘t’ test for testing impact of Employee Stock Option Plan on Employee Turnover. It is observed that the ‘t’ value for null hypothesis is 6.44 which is greater than +1.80 (also greater than +2.76). Also p value is 0.00 which is less than 0.01. Hence researcher has rejected null hypothesis at 5% & 1% level of significance. On the basis of above data it can be inferred that **there is significant impact of Employee Stock Option Plan on Employee Turnover.**

4. **Hypothesis IV** is to test significant impact of Employees housing plan on employee’s turnover. To test this hypothesis we initially tested data for normality. It is observed that, significant p value for k-s test 0.000 is less than 0.01 clearly indicates that data for impact of Employees housing plan on employee’s turnover is not normal. Hence we use non-parametric one sample sign test for testing
significance of impact of Employees housing plan on employee’s turnover. It is observed that ‘z’ value for null hypothesis is 10.42 which is greater than +1.645 (also greater than +2.326). Also p value is 0.00 which is less than 0.01. Hence researcher has rejected null hypothesis at 5% & 1% level of significance. On the basis of above data it can be inferred that there is significant impact of Employees housing option plan on employee’s turnover.

7.5 OVERALL CONCLUSIONS:
Based on the findings of the study, the following conclusions have been drawn at.

1. ESOP increases
   a. Earning per share.
   b. Dividend.
   c. Share Capital of Company.
   d. Ownership of employees in company.
   e. Security Premium of Company.
   g. Perquisites.
   h. Cash bank position of companies.
   i. Sense of ownership amongst company employees.
   j. Employee productivity in company.
   k. Employee motivation.
   l. Average sales per employee of company.
   m. net profit per employee of company
   n. Morale, commitment, dedication and loyalty of employee.

2. ESOP
   1. Does not reduce Salary paid to employees.
   2. Cannot be given in place of Bonus.
   3. Have effect on Net worth of Company.
   4. May or may not have effect on deferred assets of company.
   5. Will not increase Current liability of Company.
   6. May or may not increase non cash expenses of company.
7. Does not disclose correct financial statement.
8. Creates good image for company and employee gains pride in Company.
9. Reduces employee turnover of company.
10. Makes employees to remain for longer period in company.
11. Does not increase Trade Union activities in Company.
12. May or may not increase Market Price of Companies.
13. Increases sense of ownership amongst company employees.
14. Does not reduce absenteeism of employees.
15. May or may not create attachment amongst relatives of employees.
16. Reduces other shareholders percentage in Company.

3. EHOP increases
   a. Employee motivation.
   b. Employee productivity.
   c. Punctuality amongst employees
   d. Financial burden of employees if rent is collected from employees.
   e. Financial burden of employees if HRA is not given to employees.

4. Productivity of business depends on employees.
5. Profit is increased if employees are motivated.
6. Security Premium is increased due to amalgamation of Companies.
7. Security Premium is utilized for issue of Bonus, writing off share issue expenses.
8. Security Premium is created when shares are issued above face value.
9. Security Premium may or may not be created in cash.
10. Profitability depends on productivity of employees.
11. Companies are issuing ESOP at Market Price and no discount is allowed to employees.
12. Each company follows different method of disclosure regarding granting and exercise of ESOP.
13. Housing near place of work increases employee productivity.
7.6 SUGGESTIONS:

7.6 A) For Company Management:
1) Company should grant ESOP to all employees of company else it creates jealousy, hatred, groupism amongst employees.
2) Employees feel that ESOP is not granted impartially and a proper method should be developed on basis of which the method of granting is disclosed. More and more transparency should be introduced in granting ESOP.
3) Housing colonies should be built up to motivate and retain employees.
4) Company management should freely disclose employees receiving ESOP, number of ESOP, Price at which the same is granted to employees.
5) Object of ESOP should be made clear to employees, so that all employees will take more interest in the company.
6) Effect of ESOP on employee turnover should be disclosed in annual accounts so that other employees also get motivated to work for the company.

7.6 B) For Government, Ministry of Company Affairs and ICAI:
2) Consistent Policy of disclosure regarding Deferred Employee compensation and Employee Stock Outstanding Option followed with number of ESOP and amount of ESOP granted.
3) In case the Company is granting ESOP at different rates, the Premium per share should be properly disclosed in the financial statement.
4) As a part of CSR activities Companies should grant more ESOP and can claim Income tax benefit.

7.7 SCOPE FOR FURTHER STUDY:
The analysis provided in this thesis suggests a number of areas for further research.
1. Study of presentation of Employees Stock Option Plan by different Companies can be undertaken.

2. Study of issue of Employees Stock Option Plan at Market price or below market price can be undertaken.

3. Study of issue of Employees Stock Option Plan at Fair Market Price can be undertaken.

4. Study of issue of Employees Housing Option Plan can be undertaken.

5. Study of issue of Employees Stock Option Plan at Fair Market Price and its impact on financial statement can be undertaken.

6. Study of comparative in nature of Employees Stock Option Plan at Fair Market Price and Intrinsic Price and its impact on financial statement can be undertaken.

7. Study of issue of Employees Stock Option Plan in bullish market conditions can be undertaken.

8. Study of issue of Employees Stock Option Plan at different industries can be undertaken.

9. Study of issue of Employees Stock Option Plan at foreign companies can be undertaken.

10. Study of issue of Employees Stock Option Plan at private companies can be undertaken.

11. Results of this study are based on a sample of 13 companies selected out of universe of 30 companies. However, there are many companies listed, so the same research can be extended for other companies as well.