

EMPLOYEE STOCK OPTION PLAN AS A TOOL OF TALENT RETENTION

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Abstract: Talent retention is most difficult task which corporate leaders are facing due to the shortage of skilled labour and employee turnover. In this context organization need to dig ideal approaches to retain the most effective talent. This paper is framed to get a conceptual idea about the significance of talent retention in an organization in the long run specifically in start-up nits and well known company like Aditya Birla Group. It also focuses on various types of option plan beneficial for the employees in various ways. There are various ways to retain the existing talent in the organization, this paper focus on employee stock option plan as a tool of talent retention.

Keywords: Employee, Talent..

INTRODUCTION

An ESOP is a type of employee benefit plan which is entitled to encourage employee to acquire stocks or ownership in the company. In a formal term an ESOP is an employee equity ownership plan that can include stock, stock options or what is often referred to as phantom stock. ESOP is one of the important tools to attract and retain the employees. The feeling of ownership encourages employees to have long term career aspiration in the organization. It is important to ensure that the ESOP is attractive for employees, simply to understand and compliant with various tax and regulatory requirements. Employee stock option plan is also known as ESOP have been popularised by Microsoft and Cisco System which has resulted in great personal wealth for the early employees.

From the perspective of an employee the benefit of ESOP includes:

- Ability to directly share in the success of the enterprise;
- Re-presentation of worth to the employer;
- The potential for significant tax saving upon share disposal;
- Installation of pride due to ownership mentality ;
- Job satisfaction to the employees.

From the perspective of the company, the benefits of an ESOP include:

- Use as tool to attract and retain key talent of the employee;
- Creation of an ownership mentality among employees;
- The recognition and valuation of the contribution of the employees;
- Boost to the productivity and competitiveness.

Objective of Study

- To study the types of ESOP beneficial for the employees.
- To overview the scheme of ESOPs in small and start-up units.
- To analyse the ESOP scheme of Aditya Birla Group.

METHODOLOGY

This paper is framed on the basis of various secondary sources like research article, books and websites. The paper represents conceptual frame work of Employee Stock Option Plan and its practical application in small as well as large companies like Aditya Birla Group.

TYPES OF EMPLOYEE STOCK OPTION PLANS

Companies have substantial flexibility to design the plan catering to their needs. Usually companies adopt one or more of following types of plans with variations in the specific terms to make it relevant to its business needs and objectives:

Employee Stock Option Scheme (ESOS)

An ESOS is a right to buy shares at a predetermined price. The option granted under the plan confers a right but not an obligation on the employee. Stock options are subject to vesting, requiring continued service over a specified period of time. On vesting options, employees can exercise the options to get shares, by paying the pre-determined exercise price.

Employee Stock Purchase Plan (ESPP)

An ESPP allows employees to purchase company shares, often at a discount from FMV at grant or exercise. The plan term determines the date and price at which the employee is entitled to purchase company stock.

Stock Appreciation Right (SAR)/ Phantom Equity Plan (PEP):

Under SAR/PEP, the employees are allotted notional shares/ units at pre-determined price. On completion of vesting conditions, the employee is paid cash equivalent of the net gain i.e. appreciation in the price of underlying shares without any cash investment. These plans generally result in cash outflow for the company.

Restricted Stock Award (RSA):

Under RSA, an employee receives an award of stock subject to certain underlying conditions. If the underlying conditions are not met, the shares are forfeited. The employee is considered to be the owner of the shares from the date of award with entitlement to receive dividends and voting rights. The forfeited conditions may be based on continued service over a specified period of time. The employee may be required to pay for RSA at grant which may be at a discount or more usually is awarded the stock at no cost.

Restricted Stock Units (RSU):

Under RSU, an employee is awarded an entitlement to receive stock at some specified date in the future subject to certain conditions. These conditions may relate to the performance or tenure of employment. Until shares are actually delivered, the employee is not a shareholder and does not have voting rights or right to receive dividend. It is important to note that RSU is not an immediate transfer of shares subject to forfeiture, but a promise to give shares in the future. RSU are generally entitled to quasi-dividend.

STOCK OPTIONS FOR START-UP UNITS

A stock option plan gives an employee the right to buy a certain number of shares in the company at a fixed price for a certain number of years. The price at which the options are obtained is called the strike price or fair market value. At the time the option are granted the option holders hope that the share price will raise and they will be able to lock in such gain by purchasing the stock at a lower strike price and selling the same at prevailing market price. Under a typical plan, the options are generally subject to vesting so an employee might get, for example, the right to purchase 25% of the shares available under the grant after two years, 50% after three years, 75% after four years, and 100% after five years.

The above was all about the ESOP of small and start-up companies. Not only small companies but also well leading company like Aditya Birla Group also gives ESOPs.

ESOP Scheme of Aditya Birla Group

The \$ 10 billion Aditya Birla Group is unfolding ambitious growth plans with acquisition of companies, setting up of new projects and further exploring overseas business opportunities. The human resource function is also gearing up to face the challenges that such a growth throws up. Recently, it has introduced the employee stock option plan in four of its listed companies – Hindalco, Grasim, Aditya Birla Nuvo and UltraTech.

The plan is basically to offer the company managers a long- term incentive plan and retain the best talent. This move will boost a sense of ownership and accountability among employees and will help manage the

recruitment process. The scheme will also complement the variable pay plan that has been in place for past many years. While Hindalco, Grasim and Ultra Tech will issue 0.3 % of the paid up capital for the scheme, Nuvo will issue 0.57%. The compensation committees of the respective companies will decide on the eligibility for the schemes once the schemes get approval of the shareholders. Driving the growth of the Aditya Birla Group are 82,000 committed employees, spread over 15 countries across the globe. The diversity of location, language and culture blends seamlessly into a common work ethos, which fosters excellence and rewarding entrepreneurship.

The group believe in empowerment, delegation and calculated risk taking. Its ongoing endeavour is to create an organizational environment where talent can bloom. To do so the company, strive to make the work place a source of creativity, innovation and make the work meaningful.

Conclusion

The above paper supports the implementation of employee stock option plan by the organization as long term enterprise value, driven by competitive advantage, employee's productivity and business plan execution are the long term effects of ESOP implementation. There by organizations provides a chance to the employees to directly share in the success of the enterprise. Hence the organizations will be able to retain its talent in the long run.

Recommendations

- All types of organizations should implement ESOP for the benefit of the employees.
- The enterprise should encourage their employees to participate in ESOP of the organization.
- The enterprise should create a sense of ownership mentality among the employees by implementing ESOP plans.
- ESOP plans should be used by the organizations to attain competitive advantage and boost the productivity by retaining the valuable exiting talent in the enterprise.
- In nut shell the organizations should provide a chance to the employees to have direct share in the success of the enterprise.

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