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IMPACT OF EMPLOYEE STOCK OPTION PLAN ON FIRM'S PERFORMANCE AND EMPLOYEE PRODUCTIVITY: STUDY OF SELECTED LISTED INDIAN FMCG COMPANIES

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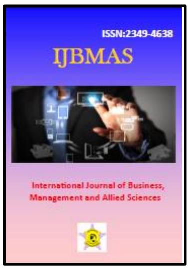

ABSTRACT

Attracting and Retaining qualified and competent manpower is a crucial problem of Indian corporates. Employee Stock Option is a worldwide phenomenon and a popular strategy of employee retention adopted by corporates. It is the best non cash incentive plan offered by companies after SEBI ESOP Guidelines 1999 that can retain the employees for longer term as it creates a sense of ownership amongst the employees of the firm. This plan is majorly used by foreign companies of US, UK, France and Japan. Indian corporates have also started gaining popularity of Employee Stock Option Plan due to emergence of India as knowledge economy. Due to the potential growth in all sectors of Indian economy, awareness about the innovative compensation plans has emerged to be a popular tool for economic growth. But nevertheless employee ownership remains on the outskirts of academic thinking. This paper makes an empirical study to analyze pre- and post- ESOP financial performance of the ESOP imparting companies, to compare and contrast the overall impact of ESOP on corporate financial performance as well as to delineate the effect of employee stock option plan (ESOP) on the corporate productivity in view of ever increasing competition among the selected Indian FMCG firms. This research study is based on a sample of ten listed Indian FMCG companies for a period of fourteen years for the companies that have adopted Employee Stock Option Plan. The study analyzes seven years prior and post period to the adoption of ESOPs for the selected companies. The study is based upon secondary data collected from company annual reports of the respective years. The analysis like Mann-Whitney U test and Regression has been used to test the statistical significance of relationship and interrelationship between variables under study.

Key Words – ESOP, Productivity, Employees, Corporate Performance, Percentage analysis, Mann- Whitney U test and Regression

INTRODUCTION

Until a few years back, the general idea amongst the employees was to get a good job, preferably in an MNC, stay around retirement and lead a happy life. In nutshell it was a situation of "Employment for life". Employees were loyal to the company they served and companies, by and large did not retrench employees. Suddenly, in the last few years, lots of things have changed .No longer are employees are willing to stay in the same company for life unless they are satisfied with the returns they get from their jobs. This could range from better remuneration to growth prospects to a better working environment. Employers too do not want to be stuck with inefficient employees but would like to have the best people around. They have been forced to find innovative ways to attract and retain good people. Companies, especially new economy companies have been forced to rejig their work culture to become employee-friendly. Then emerged the most common employee motivation and retention methods are through "Employee Stock Ownership Plans "(ESOP).

The ESOP is basically a programme that allows employees to purchase stocks in the companies they work for. It confers on employees the right to share in the wealth of the company and the right to exercise some degree of control over company affairs. ESOPs can improve employees work efforts, provide an incentive to employees to stay at a company and allow retiring owners to transfer shares of stock to employees. An ESOP is a unique arrangement wherein companies share ownership with employees without requiring the employees to invest their own money. With an ESOP, the shares of the company are contributed to an ESOP fund on behalf of the employees. This is a new financing technique which is experiencing phenomenal growth in the USA and popular in the emerging markets like India. ESOPs provide a market for the shares of closely held businesses; motivate greater employee productivity, provide tax advantages in the financing of acquisitions, capital improvements, charitable giving and stock purchases from retiring owners.

Though relatively new in India, ESOPs are having come at a fairly "right time ", have seen wide growth and being adopted by leading companies in software and IT sectors (Infosys), FMCG (Hindustan Unilever), Banking (ICICI Bank) , E-Commerce /Retail (Flip kart) and other sectors in the economy are gradually becoming aware of the benefits of ESOP. This research paper is concentrating on the impact of ESOP of Indian FMCG sector since the employee ownership is considered as an important tool for economic growth and restructuring business enterprise in the period of economic crisis.

OBJECTIVES OF STUDY

- To study the ESOP design practices by corporate in India.
- To evaluate, compare and contrast the financial performance of the selected Indian FMCG firms prior to the adoption of ESOP (Employee Stock option Plan) with the performance after the implementation of ESOP.
- To delineate the effect of employee stock option plan (ESOP) on the corporate productivity as well as employee productivity in view of ever increasing competition among the firms to retain and attract qualified and competent manpower in India.
- To evaluate the impact of ESOPs on Employee turnover and examine whether ESOPs have been successful in reducing the Employee churn out rate and thereby retaining the employees in the same organization.

RESEARCH METHODOLOGY

RESEARCH DESIGN: The research is primarily descriptive and causal in nature.

SAMPLING DESIGN: The sampling method in the study is purposive sampling (i.e. the shortlisted 10 companies belonging to Indian FMCG sector listed on BSE). The companies which have at least 5% of allotment of ESOPs for a period of fourteen years have been selected for final sample to draw meaningful conclusion in FMCG sector.

VARIABLES UNDER STUDY: The following Variables were studied in the research:

• ESOP (pre/post)
• Debt to Equity ratio
• Sales Growth
• Employee Growth
• Age
• Main Shareholder Power
• Value Added per Employee
• Asset Turnover ratio
• Employee Turnover ratio
• Capital Intensity ratio
• Return on Equity
• Return on Assets
• Return on Capital Employed
• Market Capitalization to Net Worth

SAMPLING UNITS: Following ten companies belonging to FMCG sector have been short listed for the study:

SELECTED FMCG Companies			
1	Indian Tobacco Company	6	L T foods
2	Hindustan Unilever Limited	7	Future Consumer Enterprise Limited
3	Dabur India	8	Godrej Consumer Products Limited
4	Procter & Gamble	9	Marico Limited
5	Britannia Industries Limited	10	Jubilant Food Works

SOURCE OF DATA: Secondary data has been collected from the annual reports of selected FMCG companies for the purpose of study.

PERIOD OF STUDY: Financial data pertaining to the period of fourteen years (i.e from 2004 to 2017) has been used for the study. The study took the assumption that ESOP allotment year will be considered as 0, pre allotment years as (-1,-2,-3,-4,-5,-6,-7) and post allotment years as (1,2,3,4,5,6,7)respectively and accordingly analysis are made.

DATA ANALYSIS METHODS AND TECHNIQUES: The statistical tools used are Mann-Whitney U test and Multiple Regression Analysis to test statistical significance of relationship and interrelationship between various independent and dependent variables to find out the impact of ESOP on corporate performance of ten selected Indian FMCG companies. The analysis has been conducted with the help of software packages like Microsoft Excel and SPSS

LITERATURE REVIEW

Kumar (2004) in his paper examined the effect of ESOP adoption on the productivity and performance of Indian companies. The study explored the link between ESOPs and various economic indicators characterizing company performance, risk levels and ESOP variables with the primary focus on the distinctive characteristics of ESOP companies compared to non- ESOP companies. Econometric analysis was carried out using a sample of 125 companies (including 118 listed companies) of which 38 were ESOP companies and 87 non-ESOP companies. The change in each of the productivity and performance measures was calculated over two periods, year -1 to +1, year -1 to +2. Linear regression was employed to analyse the data set. The study results indicated that ESOPs established in Indian firms have little effect on firm's productivity and profitability.

Martes (2012) in his thesis delineated the effect of employee share ownership on firm performance and corporate R&D expenditures for the largest European companies who have employee ownership plans during 2006-2010 using European Federation of Employee Share Ownership (EFES) dataset. The empirical results using linear regression indicated there was a negative association between employee ownership, profit margin and/or production growth. On the long-term using longitudinal data, employee ownership was found to have a positive impact on ROE and ROA. The study concluded that higher share of employee ownership does not guarantee higher performance of a firm and supports the argument that employee ownership alone does not guarantee better performance.

Poornima et al. (2013) in their paper empirically analysed 59 software companies listed in Indian stock market which has adopted employee stock option plan and analysed its impact on firm performance. The study indicated that employee behaviours that enhance productivity are apparently more prevalent in stock option firms which have resulted in improved employee productivity. The correlation analysis indicated that there is significant relationship between employee size, employee productivity and return on assets. But with respect to net profit margin, ESOP allotment has not improved the profit margins of the company in spite of improved employee productivity.

RESEARCH GAP

Based on the above literature reviews it is found that the subject of employee stock ownership plan is a diffused and complex one. In India, despite broad and sustained public policy interest in ESOP, literature on the subject remains limited. Literature review in ESOP related issues reached the following conclusions like studies are split between favourable and unfavourable findings on the relationship between employee ownership, firm performance and stock performance. To fill various gaps in study, this study is examining the financial impact among firm's pre-ESOP and post-ESOP allotment using financial measures as a means of assessing organizational performance in selected Indian FMCG companies listed on BSE with unexplored Indian data.

ANALYSIS

The analysis and interpretation of data is done based on Regression and Mann Whitney U test of ten selected FMCG companies are computed through SPSS for testing the significant difference between pre- and post- ESOP periods.

Table 1: Descriptive Statistics of Pre- & Post- periods for FMCG (Fast Moving Consumer Goods) sector.

VARIABLES	MEAN		STD. DEVIATION		COEFFICIENT OF VARIATION	
	PRE	POST	PRE	POST	PRE	POST
ROE	33.01	29.62	29.9	27.98	90.57	94.46
ROA	13.83	14.90	9.33	10.29	67.46	69.06
ROCE	27.33	27.94	24.35	23.92	89.09	85.61
MCNW	3.20	5.49	3.50	2.96	109.3	53.91
ESOP (Pre/Post)	2007.00	2014.0	2.01	2.01	---	---
DE Ratio	1.41	0.30	4.72	0.49	334.7	163.3
Sales Growth	124.39	22.88	1004.6	66.68	807.6	291.4

Employees Growth	7.25	6.92	11.25	10.33	155.1	149.2
Age	56.15	63.20	44.16	44.12	78.6	69.8
Main Shareholder	14.54	19.68	6.21	6.61	42.7	33.58
Value added per Employee	0.77	0.82	1.31	1.02	170.1	124.3
Asset Turnover Ratio	134.8	143.56	75.74	72.14	56.18	50.25
Capital Intensity Ratio	-0.04	0.91	18.39	0.78	---	85.71
Total Assets	3275.4	7752.4	5663.4	13354.2	172.9	172.2
Source: Computed						

INTERPRETATION OF DATA: The analysis has been done based on descriptive statistics of the variables from Pre- & Post- ESOP period that are presented in the above table. The Coefficient of Variation of the data is computed by dividing the standard deviation with the mean and the result is obtained in percentage. The highest C.V is of sales growth in both Pre- & Post- ESOP period while the lowest C.V is of main shareholder power in both Pre- & Post- ESOP period. From the above analysis it is found that shareholder power is the most consistent variable in FMCG sector while the Sales Growth is the most inconsistent variable in FMCG sector. Shareholder power means the power of the shareholder to manage the companies effortlessly and it plays a vital role in giving ESOP to employees which is a positive point for the companies as well as employees.

Table 2: Regression Analysis for FMCG (Fast Moving Consumer Goods)

	Dependent Variables							
	ROE		ROA		ROCE		MCNW	
	Pre	Post	Pre	Post	Pre	Post	Pre	Post
Independent Variables								
ESOP (Pre/Post)	.111	.016	.087	.470	.112	.475	.068	.001
DE Ratio	.000	.778	.086	.003	.058	.553	.558	.001
Sales Growth	.415	.742	.022	.661	.514	.971	.734	.812
Employees Growth	.034	.703	.844	.483	.200	.835	.212	.741
Age	.375	.012	.398	.000	.002	.002	.064	.000
Main Shareholder	.001	.000	.000	.000	.000	.000	.426	.000
Value added per Employee	.309	.469	.276	.258	.223	.476	.201	.653
Asset Turnover Ratio	0.00	.000	.000	.000	.000	.000	.076	.216
Capital Intensity Ratio	0.69	.219	.480	.223	.863	.556	.195	.038
Total Assets	0.85	.483	.388	.362	.191	.765	.835	.195
R^2	o.65	0.72	0.65	0.78	0.57	0.72	0.246	0.669
F Change	11.2	15.5	11.1	22.1	7.84	15.48	1.930	11.45
Sig. F	0.00	0.00	0.00	0.00	0.00	0.00	0.059	0.00
Source : Computed								

INTERPRETATION: Table 2 shows the significance of the variables on ESOP in FMCG companies for Pre- & Post period. It is found that in FMCG sector DE Ratio, Sales Growth, Employee Growth and Capital Intensity Ratio have highly positive impact on performance of ESOP firms while Value added per employee and Total Assets have moderately positive relationship with ESOP. However Asset Turnover ratio and Age don't have any significant impact on ESOP firms. It can also be seen that the value of coefficient of determination (R^2) indicates a significantly high explanatory power in post ESOP period compared to pre ESOP period. So overall definitely it shows that the adoption of ESOP in FMCG companies has brought a positive impact for the employees of the firms.

Table 3: Based on Mann-Whitney U test –: Significance of Value Added per Employee ratio in pre- and post-ESOP period

SECTOR	Mean Rank	Sum Ranks	Mann-Whitney U	Z Value	Sig
FMCG	66.84	4679	2707	1.07	Ns
	74.17	5192			
Source: Computed. *-Significant at 5% level, Ns- Not Significant;					

This test is based on the hypothesis followed as:

H0: There is no significant difference between Pre- & Post- ESOP periods in value added per employee ratio.

H1: There is significant difference between Pre- & Post- ESOP periods in value added per employee ratio.

INTERPRETATION: The above table 3 clearly accepts the hypothesis and the result indicates that there is no significant difference between Pre- & Post- ESOP periods in value added per employee ratio in FMCG sector. Thus it can be concluded that there is no association between magnitude of ESOP and increase in employee productivity of FMCG firms.

FINDINGS

Employee stock ownership plan did not show any significant change in Value addition of employee when it was tested by Mann Whitney U test but a difference was observed when the significance of coefficients of variables were analysed based on Regression Model as Value added per employee had a moderately positive impact on post ESOP period which is fairly a good sign towards the adoption and implementation of ESOP in FMCG firms. From the analysis and interpretation, it can be easily concluded that not only IT and Pharmaceutical companies but also FMCG companies are gradually coming in the race by adopting the ESOP in their firms and retaining their talented employees. Adoption of ESOP in FMCG firms has improved the growth of sales as well as of employees to a good extent. But yes one fact cannot be denied that the adoption of ESOP did not improve the profit and overall performance of the firm to a great extent.

CONCLUSION

Fast Moving Consumer Goods (FMCG) is the fourth largest and one of the fastest growing sectors in Indian economy**.** Implementation of GST also doesn't have negative impact for the consumers as well as the Indian FMCG companies**.** The study found mixed conclusions for the study of Employee Stock Option Plan in FMCG sector. High employee turnover has become a serious matter of discussion for the corporate world. Employee Stock Options (ESOPs) have been used as a means to retain talented employees by many companies all over the world in the last century. ESOP idea has slowly and gradually spread across corporate India and corporates have begun looking at

ESOPs as an attractive tool to hire and retain employees after SEBI ESOS & ESPP Guidelines 1999.Eventhough the sociological importance of employee stock ownership to altering traditional patterns of wealth distribution the phenomenon had received little academic attention in India but rising markets are usually a signal that the economy is reviving which means that higher attrition levels make ESOPs useful. This research paper has thrown light into ESOP practices and ESOP impact on corporate financial performance in FMCG sector. This sector is increasingly becoming the engine of growth in our Indian economy. The use of ESOP will be beneficial to employer and employee through stable relationship, associability, and trust between employee and employer in long run.

ESOPs have lots of benefits for both the issuing companies like easy retention of talented and valued employees, increase internal holdings and attracting better human resource etc. There are few problems also like lack of precise regulations, reactive nature of regulators, accounting system confusions and delays in actual realisation of benefits. In spite of problems, the advantages surpass the limitations.

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