

Chapter 7

Employee Stock Ownership: Demystifying Corporate Social Responsibility and Taxation in India

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ABSTRACT

An Employee Stock Ownership Plan (ESOP) is a strategic welfare extended to the employees in a company in the form of sharing the profits and progress of a company. The managerial personnel who have decided to go for ESOP strategy have to decide about the centre for power of control in day-to-day business operations. Thus, corporate decision making is made crucial when ESOP is decided to be followed to strengthen the ownership of an enterprise. The main challenge in issuing ESOP is the dilution in the management. This chapter deals with the corporate social responsibility, corporate governance and tax implications associated with ESOP.

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INTRODUCTION

Any form of business organisation is incorporated by the motivated entrepreneurs and led by competent leadership. The success of the organisation also depends upon the dedicated employees who carries out the mission and propel the growth of the organisation. Employees are considered as internal customers and only satisfied employees will render the better productivity and profitability. These contented employees will make the organisation to have a sustainable competitive advantage in the market and lead to a constant elevation towards the mission. As parents nurture their children, the employees nurture their organisation with their values and heartfelt efforts. The contented employees will have a feeling of oneness with the organisation and they celebrate the success of the organisation as their own. The emotional bonding, dedication and commitment of the employees could not be measured in monetary terms. The employees may reach the targets, meet the expectations of the consumers and at times they also innovate new techniques in production and marketing. Thus, the skills, knowledge and experience of the employees should be recognised by the top management as the employees are considered to be the valuable asset of the organisation.

A company which appreciates its own employees will be reciprocally appreciated by them. This will lead to enhanced productivity and loyalty of the employees. The retention of the employees will also be high as they are satisfied with the positive work environment and the attitude of the top management. The consistent performance evaluation of the employees will make to understand about their progress over a period of time. The employees will always expect recognitions and rewards for their high performance. These rewards will also motivate them to exceed their own targets of the previous period.

An Employee Stock Ownership Plan (ESOP) is a strategic welfare extended to the employees in a company in the form of sharing the profits and progress of a company. ESOP is one of the rewards extended to the employees as a strategic benefit plan. It implies that the interest in the ownership of the company is given to the employees aligning them with the interest of the shareholders. It is a profit-sharing plan designed by the management recognising the efforts of the employees. ESOP will attract, motivate, and retain the employees and this is an option given to them but not an obligation. It is an option given to the permanent employees and whole-time directors the right to buy the stock at a predetermined rate over a particular period. The ESOPs were found by a corporate lawyer Louis Kelso in the year 1956 as a shift of ownership of Peninsula Newspapers Incorporation from their founders to the successors, namely, the managers and employees. He strongly believed that the employees of the company are the ones who had made the company to be suc-

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