



A Study on ESOP Framework in India

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Abstract

Employee Stock Ownership Plans (ESOPs) have emerged as a significant tool in India for aligning employee interests with organizational growth. ESOP was initially introduced as a form of incentive for the employees and to retain employees in the organization, ESOPs are now widely adopted across industries, particularly in start-ups and technology-driven sectors. This research critically examines the framework of ESOPs in India, focusing on their legal, regulatory and practical aspects, while placing special emphasis on their impact on employees. The study explores whether ESOPs truly benefit employees in terms of wealth creation, job satisfaction and long-term security or whether they primarily serve organizational interests by deferring compensation and mitigating attrition. Drawing on secondary data, case studies and survey responses, this project seeks to identify the actual effectiveness of ESOPs as a motivational and financial tool for employees. The findings aim to contribute to the ongoing discourse on ESOPs by highlighting both the opportunities and challenges within the Indian framework, offering insights for policymakers, organizations and the workforce at large.

Keywords: Employee Stock Ownership Plans (ESOPs), Employee retention, Organizational growth, Wealth creation, Regulatory framework, Employee motivation.

Introduction

Employee Stock Ownership Plans (ESOPs) have gained prominence in India as an innovative compensation and retention strategy, particularly in the start-up ecosystem and technology-driven industries. By offering employees the opportunity to own the shares of the company, ESOPs aim to align their personal growth with the long-term success of the organization. The Indian regulatory framework, governed by the Companies Act, SEBI regulations and taxation laws provides a structured approach for the implementation of ESOPs, yet its effectiveness remains debated in the purview of employees.

While ESOPs are often presented as tools for wealth creation, motivation and loyalty building, questions arise about their actual impact on employees. Issues such as complex taxation, vesting restrictions, illiquidity of shares and valuation uncertainties often limit their practical utility. This research attempts to analyze whether ESOPs truly serve the best interests of employees or primarily act as organizational strategies to retain talent and delay direct cash compensations.

Statement of the Problem

Employee Stock Ownership Plans (ESOPs) are often introduced as a benefit to employees, giving them a chance to become partial owners of the company. In theory, this should

motivate employees, make them feel valued, and provide long-term financial rewards. However, in reality, many employees find it difficult to understand how ESOPs work, face issues like heavy taxation, long waiting periods before they can sell the shares, and sometimes end up with little or no real benefit. This raises an important question: Are ESOPs in India truly beneficial for employees, or are they mainly a tool for companies to retain staff and reduce immediate salary costs? The problem lies in the gap between how ESOPs are presented and how they actually impact employees in practice. This research aims to study this gap and find out whether ESOPs genuinely improve employee satisfaction and financial growth, or if they are more advantageous to employers than to employees.

Review of Literature

The article *Employee Stock Option Plan (ESOP): The Finer Nuances* by CS Ashwani Singh Bisht ^[1] provides an in-depth discussion of the conceptual, legal, and practical aspects of ESOPs in India. It explains how ESOPs function as a compensation and retention tool, outlines the regulatory framework under the Companies Act and SEBI guidelines, and highlights issues such as valuation, taxation, vesting conditions, and compliance obligations. The paper further emphasizes that while ESOPs have the potential to motivate

and reward employees by offering ownership, their effectiveness depends on transparent structuring, clear communication, and robust governance practices.

The KPMG ESOP Survey Report 2021 ^[2] provides insights into the adoption and implementation of Employee Stock Option Plans (ESOPs) among Indian companies. Conducted with inputs from nearly 200 multinationals and Indian-listed companies across various sectors, the survey reveals that approximately 72% of private companies have either implemented or are contemplating the implementation of an ESOP plan. The Information, Communication, and Technology (ICT) sector leads in ESOP adoption, followed by Manufacturing and Consumer Goods (MCG) and Financial Services sectors. The report indicates that 68% of participating companies are seasoned, with over 10 years of operation, and 31% have an employee base exceeding 2,000. Notably, 53% of companies offering ESOPs are Indian subsidiaries of overseas parents, highlighting the influence of global practices on local compensation strategies. The survey also notes a preference for traditional stock option plans over more complex variants like Restricted Stock Units (RSUs) and Stock Appreciation Rights (SARs). Key objectives for implementing ESOPs include employee retention, generating employee ownership, and enhancing compensation strategies. Additionally, 54% of respondents emphasize ESOPs as part of their hiring strategy to attract prospective talent.

The research paper by Nishith Desai Associates ^[3] offers a comprehensive analysis of the legal, regulatory, and tax considerations surrounding Employee Stock Option Plans (ESOPs) and other employee benefit schemes in India. It delves into the applicability of the Securities and Exchange Board of India (SEBI) regulations to listed and unlisted companies, highlighting key provisions related to eligibility, vesting, exercise, and taxation. The paper also examines the legal framework governing the award of sweat equity to employees and discusses the implications of these schemes on employee retention and motivation. Furthermore, it addresses the challenges and complexities associated with the implementation of ESOPs, including compliance with evolving regulations and alignment with global best practices. Prof. (Dr.) Ambuj Gupta's research paper, *Employee Stock Options Scheme in India: Some Reflections and the Way Forward* ^[4], published in September 2021, provides an in-depth analysis of the evolution, challenges, and future prospects of Employee Stock Option Plans (ESOPs) in India. The paper highlights the increasing adoption of ESOPs by Indian companies, particularly in the Information Technology (IT) sector, as a strategic tool for employee retention and motivation. It examines the regulatory frameworks governing ESOPs, including compliance with the Companies Act, 2013, and the Securities and Exchange Board of India (SEBI) regulations. The study also addresses critical issues such as taxation policies, valuation methods, and the complexities involved in implementing ESOPs in both listed and unlisted companies. Furthermore, the paper discusses the role of ESOPs in enhancing organizational performance and aligning employees' interests with those of shareholders. Prof. Gupta concludes by suggesting reforms to streamline the regulatory processes, improve tax structures, and promote greater adoption of ESOPs across various sectors in India.

Objectives

This research focuses on exploring the following objectives:

- i). To find out if ESOP benefits the employees or not
- ii). To analyze the practical implementation of ESOPs

- iii). To identify challenges and suggest reforms
- iv). To examine the legal and regulatory framework

Methodology

This research is based on both Doctrinal and Non-Doctrinal research. The sources of data collected from different newspapers, journals, magazines, reports and eresources. There are 54 sample sizes of the respondents used in this research. This statistical tools of this research is percentage and average method. This research adopted stratified random samplings. The duration of this research is one month.

Hypothesis

Hypothesis 1: ESOPs in India significantly enhance employee satisfaction, motivation, and financial growth.

Hypothesis 2: ESOPs in India primarily serve as a retention strategy for employers and do not provide substantial financial benefits to employees.

Result and Discussion

Part 1: Doctrinal Research

Concept of ESOP

An Employee Stock Ownership Plan (ESOP) is an employee benefit scheme that gives workers a chance to acquire ownership rights in the company they work for, generally in the form of company shares. Unlike traditional salary or cash bonuses, ESOPs provide employees with equity-linked rewards, which creates a sense of belonging and alignment with the company's long-term objectives.

In simple terms, ESOPs give employees the right to buy or receive company shares, usually at a predetermined price and after a certain period of time. This period is called the "vesting period". Once the shares are vested, employees can exercise their option to own them and eventually sell them to earn financial returns.

Characteristics of ESOP

- **Ownership Opportunity:** Employees are not just workers but become shareholders with an ownership interest in the company.
- **Vesting Period:** Shares are not given immediately. Employees must stay with the company for a certain number of years before they gain the right to exercise their stock options. This helps companies retain talent.
- **Exercise Price:** This is the price at which employees can buy the shares, usually lower than the market price, giving them a potential financial advantage.
- **Liquidity:** Once employees exercise their options, they may sell the shares (if listed) or wait for the company to provide a buyback (in case of unlisted companies).
- **Taxation:** In India, taxation is applied when options are exercised and again when shares are sold, which can sometimes reduce the net benefit for employees.

Objectives of ESOP

- **Motivation and Productivity:** Employees work harder and smarter when they know their efforts will increase the company's value and, in turn, their personal wealth.
- **Retention Tool:** Since shares vest over time, employees are encouraged to stay longer with the company.
- **Wealth Creation:** If the company grows, the value of shares rises, offering significant financial rewards.
- **Alignment of Interests:** Employees act like owners, aligning their goals with those of management and shareholders.

How ESOP Works

- i). **Grant of Options:** Employees are granted “options,” which give them the right (not the obligation) to purchase shares of the company at a fixed price (known as the exercise price).
- ii). **Vesting Period:** Employees cannot use their options immediately. A minimum period (usually 1 year, but often 3–4 years in practice) is required before they earn the right to exercise their options. Vesting is often staggered, ensuring employees remain with the company for a longer duration.
- iii). **Exercise of Options:** After the vesting period, employees may choose to “exercise” their options, i.e., buy the shares at the pre-decided exercise price, which is often lower than the prevailing market price.
- iv). **Holding or Selling Shares:** Once exercised, the employee becomes a shareholder. They may hold the shares for capital appreciation or sell them (if the company is listed or if the company provides a buyback opportunity in case of unlisted shares).

Advantages of ESOP

For Employees:

- Gain ownership in the company.
- Potential to earn beyond fixed salaries.
- Sense of belonging and motivation.

For Employers:

- Attracts and retains top talent.
- Reduces immediate cash outflow as part of salary is deferred into equity.

Challenges and Criticisms

- **Taxation Burden:** In India, employees face double taxation: first when exercising the option (as perquisites under salary) and again when selling the shares (as capital gains).
- **Lack of Awareness:** Many employees do not understand valuation methods, exercise rules, or long-term implications of ESOPs.
- **Liquidity Issues:** In private or unlisted companies, selling ESOP shares can be difficult unless there is a buyback or IPO.
- **Risk Factor:** If the company underperforms, the ESOP value may diminish or even become worthless.

Legal Framework of ESOP in India

1. The Companies Act, 2013

The Companies Act, 2013 governs ESOPs by laying down the basic rules for how companies can grant stock options to their employees. It ensures that ESOPs are issued in a transparent manner, with approval from shareholders and proper disclosures about the number of options, the price at which they can be exercised, and the conditions for vesting. The Act also places restrictions so that ESOPs are mainly used to benefit genuine employees and not promoters or majority owners. In short, the Companies Act provides the framework to make sure ESOPs are implemented fairly and with accountability.

The relevant provisions includes,

- **Section 62(1)(b):** Authorizes companies to issue ESOPs to employees, directors, or officers, ensuring shareholder approval through a special resolution. The Stock option cannot be offered without the approval of the shareholder in the general Meeting. The Company is required to pass

the special resolution and obtain the following approval from the shareholders

- The companies must obtain the allowance of subsidiary to the employee or holding company.
- Grant of more than 1% or equal of capital issued to the identified employees during any one year. The capital which is issued should exclude conversions and outstanding warrants of the company during the time of the grant of the option to the employee.

- **Rule 12 of Companies (Share Capital and Debentures) Rules, 2014:** Provides detailed conditions for issuing ESOPs, including disclosure requirements, exercise price, vesting period, and restrictions on issuing ESOPs to promoters or directors holding significant equity.
- **Disclosure Requirements:** Companies must disclose key information about ESOPs in the explanatory statement of the general meeting and in the board’s report, including the total number of options, terms of exercise, and lock-in conditions.
- **Start-up Relaxations:** Certain provisions allow eligible start-ups to offer ESOPs to promoters or directors for a limited period while remaining compliant with corporate governance norms.

2. SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021

The SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021 provide the rules for how listed companies in India can issue ESOPs. These regulations make sure that stock options are given only to genuine employees and not to promoters or their relatives. They require companies to be transparent by disclosing details of the ESOPs in their reports, follow a minimum one-year vesting period, and get an independent valuation of the shares. The rules also cover how shares can be bought back or issued under ESOPs, ensuring fairness for both employees and shareholders.

Key provisions are,

- **Regulation 2(1)(f):** Defines *Employee Stock Option* and specifies eligibility, making clear that promoters and persons belonging to the promoter group are not entitled to ESOPs.
- **Regulation 3 & 4:** Provide the overall applicability of the regulations to all listed companies and clarify that schemes must be in compliance with these rules.
- **Regulation 6:** Requires shareholder approval by way of a special resolution for implementing ESOP schemes.
- **Regulation 7 & 8:** Lay down detailed conditions for grant of options, including the role of the compensation/nomination & remuneration committee in administering the scheme.
- **Regulation 9:** Provides that there must be a minimum one-year vesting period before options can be exercised, with exceptions in cases of death or permanent incapacity.
- **Regulation 13:** Deals with pricing and valuation, allowing companies to determine exercise price but requiring disclosure of the method used and, in some cases, independent valuation.
- **Regulation 23 & 24:** Mandate disclosures in board reports and annual reports regarding ESOP grants, vesting, exercises, lapses, and remaining options.
- **Regulation 26–28:** Provide rules for administration

through trust route, including acquisition, holding, and transfer of shares by employee welfare trusts.

- **Regulation 31 & 32:** Govern treatment of options in case of corporate actions like mergers, demergers, or buybacks.
- **Regulation 40–43:** Cover listing and trading of shares issued under ESOPs, ensuring compliance with stock exchange requirements.

3. Taxation Framework (Income-tax Act, 1961)

The Income Tax Act in India governs ESOPs by determining how employees are taxed when they receive and sell company shares. Employees are taxed on the difference between the market value of the shares and the price they pay to exercise the options, which is treated as a part of their salary. Later, when employees sell the shares, any profit is taxed as capital gains. The Act also provides some relief for start-ups, allowing them to defer taxation until the shares are sold or the employee leaves the company. In general, the Income Tax Act ensures that ESOPs are taxed fairly while also encouraging their use as a tool for employee motivation and retention.

ESOP is taxed in the following method,

At the time of Exercise:

- The difference between the fair market value (FMV) of the shares on the exercise date and the exercise price paid by the employee is treated as a perquisite (part of salary) and taxed under the head “*Income from Salary.*”
- For unlisted shares, FMV is determined by a Category-I Merchant Banker.

At the Time of Sale:

- When the employee sells the shares, the difference between the sale price and FMV (on the date of exercise) is treated as capital gains.
- Tax rate depends on the holding period:
 - **Listed Shares:** >12 months = long-term capital gains (LTCG), ≤12 months = short-term capital gains (STCG).
 - **Unlisted Shares:** >24 months = LTCG, ≤24 months = STCG.

Part-2: Non-doctrinal Research

1. Are you aware of Employee Stock Ownership Plans (ESOPs)?

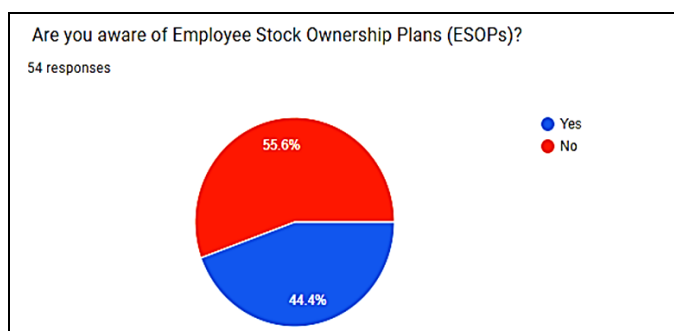


Chart 1: Awareness of ESOP

This chart implies that more than half of the respondents lack awareness about ESOPs, suggesting a need for better education and communication regarding such employee benefit schemes. The result highlights a knowledge gap among the people, which could affect the success of ESOP

implementation in organizations.

Table 1: Awareness of ESOP

Question	Response Options	Number of Responses	Percentage
Are you aware of Employee Stock Ownership Plans (ESOPs)?	Yes	24	44.4%
	No	30	55.6%
Total		54	100%

2. Does your organization provide ESOPs?

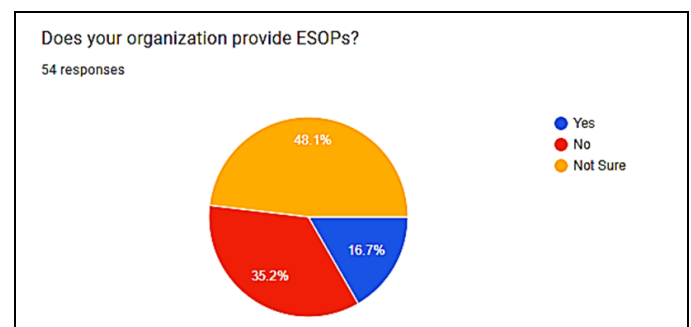


Chart 2: Availability of ESOPs in Organizations

Table 2: Availability of ESOPs in Organizations

Question	Response Options	Number of Responses	Percentage
Does your organization provide ESOPs?	Yes	9	16.7%
	No	19	35.2%
	Not Sure	26	48.1%
Total		54	100%

The chart shows that out of 54 respondents, only (16.7%) confirmed that their organization provides Employee Stock Ownership Plans (ESOPs), while (35.2%) stated that their organization does not offer them. Interestingly, a large majority of (48.1%) respondents said they are not sure whether their organization provides ESOPs. This indicates that awareness and clarity about ESOP policies are relatively low among employees. The fact that nearly half of the participants are uncertain reflects a communication gap between employers and employees regarding such benefit schemes. Additionally, the comparatively low percentage of “Yes” responses suggests that ESOPs are still not widely implemented across many organizations in India.

3. How well do you understand ESOPs and their benefits?

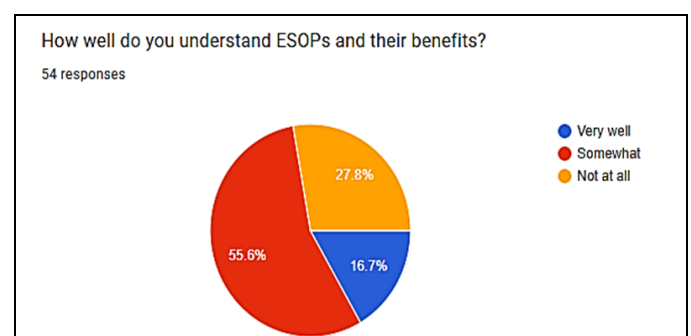


Chart 3: Understanding of ESOPs and Their Benefits

The data shows that while a small portion (16.7%) of participants have a clear understanding of ESOPs and their benefits, the majority (55.6%) have only a partial understanding. Additionally, a notable (27.8%) of respondents lack any understanding of ESOPs. This indicates that awareness and comprehension of ESOPs remain limited among employees, with most individuals having only a basic or incomplete idea of how these plans function. The findings suggest a strong need for educational initiatives and communication programs within organizations to ensure employees are well-informed about ESOPs, their benefits, and how they can contribute to long-term wealth creation and job satisfaction.

Table 3: Understanding of ESOPs and Their Benefits

Question	Response Options	Number of Responses	Percentage
How well do you understand ESOPs and their benefits?	Very well	9	16.7%
	Somewhat	30	55.6%
	Not at all	15	27.8%
Total		54	100%

4. Do you believe ESOPs motivate employees to perform better?

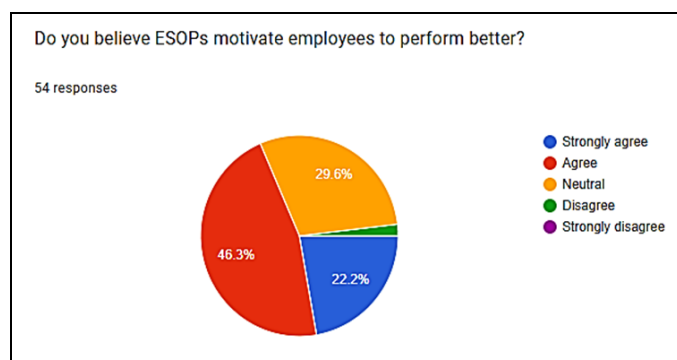


Chart 4: ESOPs as a Motivational Factor

Reveals that a large majority of respondents view ESOPs as a positive factor in employee motivation. Out of 54 respondents, (46.3%) agreed that ESOPs encourage better performance, while (22.2%) strongly agreed, showing that nearly seven out of ten respondents see ESOPs as an effective motivator. On the other hand, (29.6%) remained neutral, indicating that they are unsure about the impact of ESOPs or feel the effect may vary depending on circumstances. Only (1.9%) disagreed, and none strongly disagreed, suggesting that very few respondents believe ESOPs fail to influence motivation. Overall, the findings highlight that ESOPs are widely perceived as a beneficial tool for enhancing employee performance with minimal opposition to their effectiveness.

Table 4: ESOP as a motivational factor

Response Option	Percentage	Number of Respondents
Strongly Agree	22.2%	12
Agree	46.3%	25
Neutral	29.6%	16
Disagree	1.9%	1
Strongly Disagree	0%	0
Total	100%	54

5. Do ESOPs increase employee loyalty and commitment?



Chart 5: ESOPs and Employee Loyalty

Most people in the survey believe that ESOPs help improve employee loyalty and commitment. Out of 54 people, about (39%) agreed and (24%) strongly agreed, which means more than 63% feel ESOPs make employees more connected to their company. Around (35%) were neutral, meaning they are unsure or think other factors also matter. Only (2%) disagreed, and no one strongly disagreed. In short, the results show that ESOPs are generally seen as a good way to build loyalty and long-term commitment among employees.

Table 5: ESOPs and Employee Loyalty

Response Option	Percentage	Number of Respondents
Strongly Agree	24.1%	13
Agree	38.9%	21
Neutral	35.2%	19
Disagree	1.9%	1
Strongly Disagree	0%	0
Total	100%	54

6. What do you consider the biggest benefit of ESOPs?

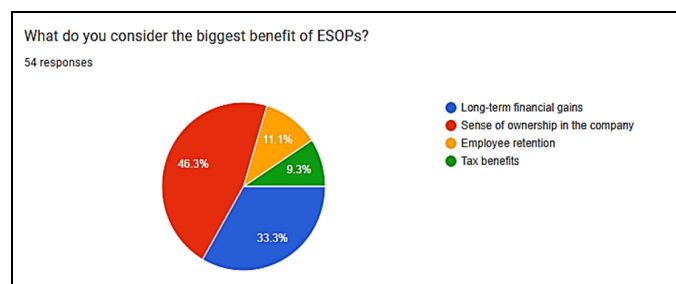


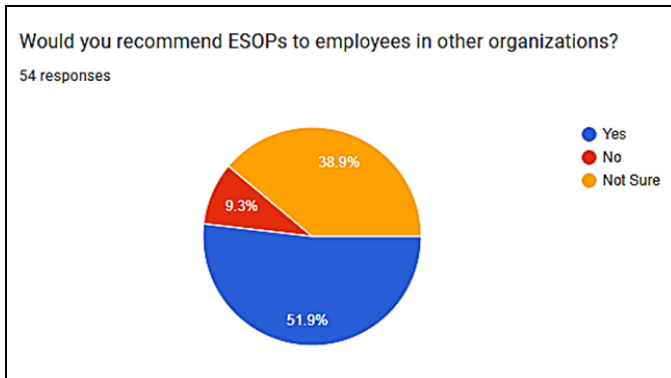
Chart 6: Biggest Benefit of ESOPs

From the pie chart, it is evident that the majority of respondents (46.3%) believe that the biggest benefit of ESOPs lies in employee retention, indicating that ESOPs encourage employees to stay longer with their organizations. Following this, (33.3%) of respondents view long-term financial gains as the most significant advantage, reflecting the monetary benefits employees expect to receive over time. Meanwhile, (11.1%) consider a sense of ownership in the company as the greatest benefit, showing that ESOPs also help strengthen employee engagement and commitment. A smaller portion, (9.3%), highlighted tax benefits as the key advantage, suggesting that while important, financial incentives through taxation play a less central role compared to retention and wealth creation.

Table 6: Biggest Benefit of ESOPs

Benefit of ESOPs	Percentage	Number of Responses (out of 54)
Employee retention	46.3%	25
Long-term financial gains	33.3%	18
Sense of ownership in the company	11.1%	6
Tax benefits	9.3%	5
Total	100%	54

7. Would you recommend ESOPs to employees in other organizations?

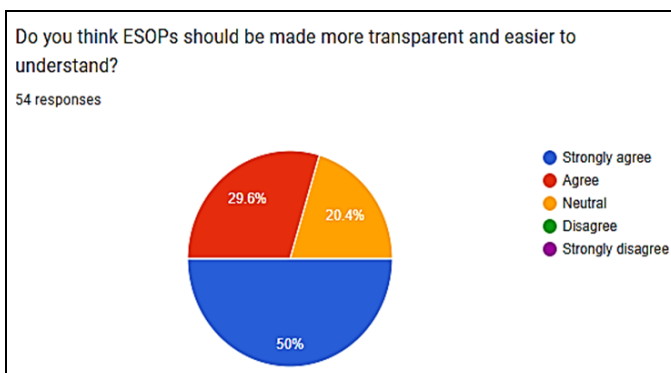
**Chart 7:** Recommendation of ESOPs to Others

According to the data, (51.9%) of respondents said yes, showing that more than half are inclined to recommend ESOPs to others. In contrast, (9.3%) responded no, indicating a small portion do not support the recommendation. Meanwhile, (38.9%) selected not sure, reflecting that a considerable number of respondents remain uncertain or may not have enough knowledge to form an opinion. Overall, the results suggest that while most respondents have a favorable view of ESOPs, a notable segment still puts out hesitation or lack of clarity.

Table 7: Recommendation of ESOPs to Others

Response Option	Percentage	Number of Responses
Yes	51.9%	28
No	9.3%	5
Not Sure	38.9%	21
Total	100%	54

8. Do you think ESOPs should be made more transparent and easier to understand?

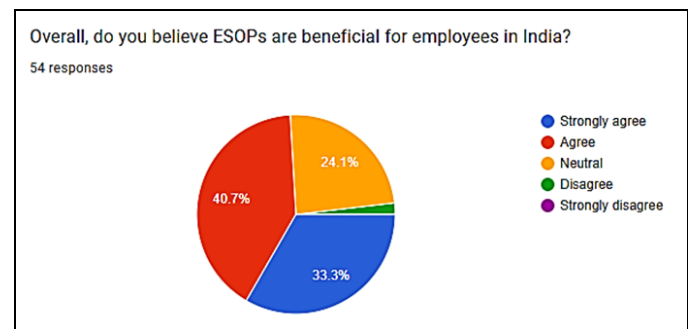
**Chart 8:** Need for Transparency in ESOPs

Half of the respondents, accounting for (50%), strongly agree that ESOPs need to be made more transparent and easier to understand. Around (29.6%) agree with the statement, showing further support for improved clarity in ESOP frameworks. Meanwhile, (20.4%) of respondents are neutral, indicating that they neither agree nor disagree with the statement. There are no responses for disagree or strongly disagree, suggesting that none of the respondents oppose the idea of making ESOPs more understandable. Overall, the data highlights a strong consensus in favor of enhancing transparency and simplicity in ESOP structures.

Table 8: Need for Transparency in ESOPs

Response Option	Percentage	Number of Responses
Strongly Agree	50%	27
Agree	29.6%	16
Neutral	20.4%	11
Disagree	0%	0
Strongly Disagree	0%	0
Total	100%	54

9. Overall, do you believe ESOPs are beneficial for employees in India?

**Chart 9:** Overall Benefit of ESOPs for Employees in India

The pie chart illustrates that, 33.3% of respondents strongly agree that ESOPs are beneficial, while 40.7% agree, showing that a significant majority view ESOPs positively. Around 24.1% of respondents remain neutral, indicating a moderate level of uncertainty or lack of strong opinion. Only a very small portion, about 1.9%, disagree, and none of the respondents strongly disagree. Overall, the data suggests that most respondents believe ESOPs offer advantages for employees in India, though some remain neutral.

Table 9: Overall Benefit of ESOPs for Employees in India

Response Option	Percentage	Number of Responses
Strongly Agree	33.3%	18
Agree	40.7%	22
Neutral	24.1%	13
Disagree	1.9%	1
Strongly Disagree	0%	0
Total	100%	54

Testing Hypothesis

Hypothesis 1: ESOPs in India significantly enhance employee satisfaction, motivation, and financial growth.

Doctrinal Analysis: The doctrinal research establishes that Employee Stock Ownership Plans (ESOPs) are legally designed to align employee interests with the long-term goals

of the organization. The Companies Act, 2013, SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021 and the Income-tax Act, 1961 together provide a strong legal and regulatory foundation that promotes transparency, fair valuation, and equitable benefits for employees. ESOPs theoretically motivate employees by offering ownership opportunities, improving job satisfaction, and promoting wealth creation. They are also seen as a reward mechanism linking performance to the company's growth, thereby enhancing overall productivity and engagement. However, doctrinal evidence also reveals practical barriers such as double taxation, illiquidity of shares, and lack of awareness, which limit the full realization of these benefits for employees.

Non-Doctrinal Analysis: Empirical data from the survey largely supports this hypothesis. Around 68.5% of respondents (22.2% strongly agree and 46.3% agree) stated that ESOPs motivate employees to perform better, and nearly 63% (24.1% strongly agree and 38.9% agree) believe ESOPs increase employee loyalty and commitment. Furthermore, 74% of participants (33.3% strongly agree and 40.7% agree) consider ESOPs beneficial for employees in India. These findings confirm that ESOPs are perceived as motivational and satisfaction-enhancing tools among employees. However, the data also reveal that 55.6% of respondents only "somewhat understand" ESOPs, and 27.8% do not understand them at all, indicating that awareness gaps may hinder their motivational potential.

Hypothesis 2: ESOPs in India primarily serve as a retention strategy for employers and do not provide substantial financial benefits to employees.

Doctrinal Analysis: From the doctrinal perspective, the retention element of ESOPs is structurally embedded in their design through vesting periods and exercise conditions. Employees must remain with the company for several years before they can fully exercise their stock options. This ensures talent retention and continuity of service. Legal provisions under the Companies Act and SEBI Regulations emphasize vesting and lock-in periods, which serve employer interests by reducing attrition. Further, taxation and illiquidity issues under the Income-tax Act often reduce the real financial benefit to employees. Therefore, the doctrinal evidence suggests that while ESOPs appear employee-centric, they effectively act as a retention mechanism that delays monetary compensation and ties employees to the organization over time.

Non-Doctrinal Analysis: Survey findings reinforce this interpretation. The data show that (46.3%) of respondents identify "employee retention" as the biggest benefit of ESOPs higher than long-term financial gains (33.3%) or sense of ownership (11.1%). Moreover, although most respondents agree that ESOPs are beneficial, a large segment (48.1%) is not sure whether their organization even provides ESOPs and (55.6%) have limited understanding of how ESOPs work. This reflects that the practical utility for employees especially in financial terms is limited by lack of clarity and communication. The results thus indicate that ESOPs are more effective as a retention tool rather than a direct financial incentive.

Suggestions

- **Enhance Employee Awareness:** Organizations should conduct regular workshops and orientation programs to educate employees about how ESOPs function, their

benefits, vesting conditions, and tax implications. This will help bridge the knowledge gap identified in the study.

- **Simplify ESOP Structures:** Companies should simplify the terms, procedures, and documentation related to ESOPs to make them more understandable and accessible for employees, especially in unlisted and start-up sectors.
- **Tax Reforms:** The government should consider reducing the double taxation burden on employees by allowing deferred taxation or providing exemptions for start-up ESOPs to increase their real financial benefit.
- **Increase Transparency:** Employers must ensure clear communication about share valuation, vesting timelines, and buyback options through annual reports and employee handbooks to build trust and clarity.
- **Improve Liquidity Options:** Unlisted companies should introduce periodic buyback schemes or create secondary markets for ESOP shares to help employees realize actual financial gains.
- **Ensure Fair Valuation Practices:** Independent valuation of shares should be made mandatory to ensure that employees receive fair value during the exercise or sale of their options.
- **Integrate ESOPs with Performance Metrics:** Linking ESOPs directly to measurable performance outcomes can make them more rewarding and motivate employees to contribute effectively to company growth.
- **Policy Standardization:** Regulatory bodies like SEBI and the Ministry of Corporate Affairs should work towards a uniform policy framework for ESOPs applicable to both listed and unlisted companies to avoid inconsistencies.

Conclusion

This study on the Employee Stock Ownership Plan (ESOP) framework in India reveals that while ESOPs are legally structured to promote employee ownership, motivation, and wealth creation, their practical impact is mixed. The doctrinal analysis shows that the Companies Act, SEBI Regulations, and the Income Tax Act together provide a strong regulatory foundation for implementing ESOPs fairly and transparently. However, issues such as complex taxation, limited liquidity, and inadequate employee awareness reduce their effectiveness. The non-doctrinal findings further indicate that although a majority of employees view ESOPs as motivating and loyalty-enhancing, they perceive them more as a retention mechanism than a real source of financial growth. Overall, ESOPs have succeeded in aligning employee interests with organizational goals but have yet to achieve their full potential as instruments of employee empowerment and wealth creation. To make ESOPs more beneficial, companies should focus on simplifying processes, improving transparency, and educating employees about their long-term advantages.

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