



TenStep Supplemental Paper

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Faulty ESOPs

Employee Stock Options (ESOPs) are losing their charm and are no longer being sought out by employees. This could be due to recent financial scandals. HR managers are now apprehensive about using ESOPs as a retention tool.

The working of ESOPs

Under ESOPs, employees are offered company stock at a fixed price. The stock becomes employee property after a specified period. This is the “vesting period.” During this period, employees are not permitted to sell the stock. ESOPs seem to be an attractive option for the employer because they do not figure into the balance sheet.

The loopholes

Some organizations believe that showing ESOPs as an expense in the company’s statement is self-contradictory. The fact that stocks bring earnings from the employee both at the time of grant and at the time of selling makes them a source of income rather than an expense. Another factor is the difficulty encountered in calculating their worth. Moreover, the practical problems involved in implementation discourage organizations from adopting this scheme.

Other options

The following incentives may prove to be more financially viable in the future:

- Performance related cash bonuses
- Vesting period based on performance
- Performance based stock grants
- Restricted shares

The increasing unpopularity of ESOPs is a blessing in disguise, both for corporations and employees - corporations see fewer scandals while employees benefit from better and more innovative compensation strategies.