

Raising The Stock Value of Employees

Mahima Puri, Times of India, Mar 25, 2011

The technology world is divided about where Esops or employee stock options originated in India. Some say Infosys, the countrys secondlargest IT services firm, was the first to offer stock options to employees when it went public in 1993. ESOP Direct, a Mumbai based firm specialising in stock options consulting, says the Azim Premji-led Wipro first brought the concept to India in the late 1980s.

Later, in 1992, Mastek, another IT services company, began issuing optionally convertible debentures to employees. But, there is no debate about one thing: Esops made a lot of Indians rich beyond their wildest dreams. In the era of the dotcom boom, it created a new class of super-wealthy, the overnight millionaires.

In a pre-commencement lecture at New York Universitys Stern School of Business in May 2007, NR Narayana Murthy, chief mentor and chairman of the Infosys Technologies board said the company had created 2,000-plus dollar-millionaires and 20,000-plus rupee millionaires. This, four years after the company had suspended the Esops programme. The idea behind Esops is simple : if you give employees monetary benefits and ownership in a company, they will try their hardest to make it a success. In a robust, vibrant economy, companies in other sectors, too saw merit in offering equity to employees. This was the time when these companies were setting up global operations and seeking to attract experienced talent from multinationals, says **Harshu Ghate**, cofounder and CEO of ESOP Direct.

All the MNCs were already using equity compensation (Esops) as a potent tool to retain talent, so the Indian companies had to fall in line. All the IT companies started following the bigger players more out of peer pressure, and soon it became an industry practice. And then came the dotcom bust. Everyone who had quit IT jobs to become co-owners of much smaller start-ups, began to repent. It crushed the dreams of many to become young millionaires. But the concept did not vanish.

In the last five years, equity has become an integral part of compensation strategy in almost every company in the mid-to-large size segment and every sector, from infrastructure and real estate to retail and media. Besides wider acceptability, Esops have also evolved with respect to design and terms. Experts say that while companies began by offering stock options to every employee, they have now fine-tuned and moderated that to include only the more valuable assets in the middle management and above, thereby making more judicious use of the Esops pool.