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ROLE STUDY OF EMPLOYEE BENEFITS AND THEIR IMPACT ON THE DIS-INVESTMENT OF INDIAN PSUs

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ABSTRACT

The Indian economy has been a mixed economy, fostering the co - existence of the Public and the Private Sector. With Independent India focused on achieving rapid economic progress, a major thrust was laid on the development of the Public Sector Enterprises, as the duties of the State had transformed from that of a police state to one of welfare. These Public Sector Enterprises were the major Engines of Economic Growth. A major thrust was on development focusing on structural change with the setting up of the large Basic and Key industries, as also the Infrastructure industries.

KEYWORDS: Disinvestment, Labour Restructuring, Employee Stock Option Plan.

OVERVIEW:
Being highly populated, India has always boasted of surplus manpower. However, owing to insufficient skill, the majority of labour has been absorbed in the agricultural occupation. Termed agrarian, the Indian Government had a herculean task in transforming the structure of India itself, from agrarian to being more industrialized. To foster this paradigm shift in the economy from agrarian to industrial, the Indian Government made huge plan allocations under the annual and five year plans. The Industrial Policy Resolutions initially reserved most industries for the Central Public Sector Enterprises, aiming to make them self reliant.

From a mere 5 units in 1951 with an investment of ☐29 crores, an increase was seen in the numbers of CPSE s as well as in the amount of budgetary resource allocations made by the Central Government with every successive plan. With the aim of enhancing overall production along with employment opportunities provided, the Central Government gave the public sector the platform to bring in the desired structural change. The PSEs functioned with utmost efficiency, contributing substantially to the employment of human resources as well as the revenues to the Government exchequer for a number of years. Unfortunately this was not sustained for too long, as inefficiency and corruption crept into the working of these units. The total losses incurred by some of these units were very large prompting the Government to disinvest these units.

Corporate Restructuring was a significant outcome of the deliberations that took place with the IPR of 1991. The main objective was to broaden the base of the public sector equity capital with participation from private players, mutual funds and financial institutions among others to revive the efficiency of these units. The new Policy of 1991 recommended the policy of disinvestment and privatisation of several PSEs in favour of the Private Sector, to conserve and optimally use the resources of the country.

It was decided to categorise the Indian Public Sector Enterprises into 3 - Strategic, Core & Non - Core Industries. In order to infuse greater degree of efficiency in their working and to bring
about more accountability in their performance, the extent of disinvestment differed for each of these 3 categories. The Government decided to disinvest up to 74% and retain only a maximum of 26% in Non - Core Industries, This encouraged private

The performance of a company is governed by many factors - internal & external. Company policies formulated and executed have a major bearing on the company while the quality and skill of human resource employed is considered to be a dynamic aspect impacting the overall functioning of a company. It has been proven that an active and skilled labour force changes the entire dimension of functioning in a company. With welfare being the primary motive of the CPSE s, measures had been taken from the beginning to ensure that the labour were benefitted from most of the management decisions taken for the companies. Trade Unions were constituted for majority of the companies to represent the grievances and requirements of the workers. Subsequently with several amendments of labour laws, the Management of Companies comprised representatives of the trade union involved in decision making for the company, to ensure that most appropriate policies were executed, benefitting the company as well as its labour staff.

SIGNIFICANCE OF THE STUDY:

Dilution of stake in Government controlled firms in favour of the Private Sector, Mutual Funds and Financial Institutions to reform the working of the loss making Public Sector Firms was one of the main outcomes of the Economic Reforms initiated in 1991. Inefficiency and high levels of bureaucracy were the reasons for the escalating annual losses recorded from these firms. Although myriad factors have contributed to the limited success in execution of disinvestment in Indian Public Sector Enterprises, one of the major factors has been the strong opposition from the workers of the company for fear of retrenchment and thus

participation in public sector management, infusing efficiency into the enterprise working.

Disinvestment of public sector enterprises has been adopted on a large scale, with several methodologies of disinvestment such as the auction method, strategic sale, IPO, FPO, having been implemented in India. However, the success has been limited owing to several political and external factors primarily volatile capital markets, inadequate political will to implement the new reforms, lack of transparency in the process as also strong opposition from the workers and trade unions.
absence of job security with disinvestment occurring.

High Labour efficiency has been a driving force in achieving spectacular financial progress in companies. Managements have innovated various schemes as incentives to compensate workers and thus retain their highly talented workforce. Three such popular schemes was recognised as

- The Employees Shareholding Ownership Programme (ESOP) - also called a Retirement Plan, involved the employers allocating a certain number of shares to the employees, which employees are entitled to, when they retire.
- The Management Buyout (MBO) - which involved buyout of the company jointly by the workers and the management. The Employee Stock Ownership Plan has been widely implemented in America and the western countries.
- The Stock Appreciation Right (SAR) / The Phantom Equity Plan (PEP) - Under PEP, the employees are allotted notional shares units at a pre - determined price. On completion of vesting conditions, the employee is paid cash equivalent of the net gain. These plans generally result in cash outflow for the company.

With disinvestment posing a threat of retrenchment of workers, the Indian Government deliberated on introducing an Employee Stock Option Plan (ESOP), different from the Ownership plan, the buyout plan or the Phantom Plan. Under the stock option, the employees have the option to buy, at a future predetermined date, (termed vested) a certain number of the company's shares at a set price called the strike price (which is usually the market price on the day the option is given), making them shareholders of the company, upon acquiring the shares. The option can only be exercised at the future date, giving the employees the incentive to perform better, in the interim period, as they would be the future shareholders of the company.

The sense of participation and involvement of employees in the company surges with compensation plans like ESOPs offered. This would help to align the employee interests with that of the company, assisting in its overall performance. A combination of financial and work related participatory measures would have a positive impact on the company. One of the biggest impediments in the smooth execution of disinvestment in several Public Sector Enterprises in India, have been stalled on account of rebellion from the employees of the selected PSEs. In a bid to give assurance to the employees of the disinvested companies that they will not lose out ESOPs were thought of, in June 2000.

REVIEW OF LITERATURE:

Danish Faruqui and Raghav Sud in their article titled 'Economize, Privatize and Prosper' - Centre for Civil Society, analyse the methods - of disinvestment and of valuation of companies to be disinvested, that would be successful. They discuss the importance of employee stock option plans that are offered during disinvestment minimising the opposition of employees along with incorporating greater employee participation in decision making, to increase the success rate of disinvestment using this route. Their findings indicate that privatisation plays a very important role to achieve a turnaround in the performance of the companies.

Ambuj Gupta (2010) in his paper titled 'A critique's view of Stock Option Plans in India: Re- Assessment and Perspectives' analyses the impact of Employee Stock Option Plans on the private sector companies as they have adopted it on a large scale compared to Public Sector Enterprises. He assesses new ways to increase the popularity of ESOPs, mostly in the Indian Public Sector Enterprises in future.

OBJECTIVES:

1. To assess the impact of offering Employee Stock Option Scheme during disinvestment on labour participation in the company

2. To study the extent of correlation between esop offers and share prices of disinvested companies.

HYPOTHESIS:

1. H_1 : Employee stock option plan offers during disinvestment increase the share prices of disinvested companies consistently.

2. H_2: Employee Stock Option Plans increases employee participation in decision making improving the performance of the company.

METHODOLOGY:

A study of Computer Maintenance Corporation limited has been undertaken, to assess the impact of employee stock option plans undertaken as a mode of disinvestment by the Government in 2002 - 03. Secondary data comprising the company financials have been taken from the annual reports of CMC ltd, earlier editions of several financial periodicals like the Economic Times & The Mint, the magazines of the Standing Committee on Public Enterprises India, financial websites like yahoo finance, morning star and money control.

DATA ANALYSIS AND FINDINGS

Improvement in productivity is the main outcome of offering an employee stock option plan. It increases participation of the employees, as, being shareholders; they take more interest in the company affairs, as their progress is governed by the company's performance.

TABLE I a: Financial Data of CMC ltd - 1996 - 2001

	Mar-96	Mar-97	Mar-98	Mar-99	Mar-00	Mar-01
Net Income/Sales (Cr)	174.31	224.08	288.17	338.22	457.07	537.68
Growth Rate Of Sales		28.55%	28.60%	17.37%	35.14%	17.64%
Net Profit/Loss	12.66	2.57	6.8	7.31	12.7	25.09
Growth Rate Of Net Profit		-80%	165%	8%	74%	98%
Employees Cost						98.2
Growth Rate In Employee Costs						

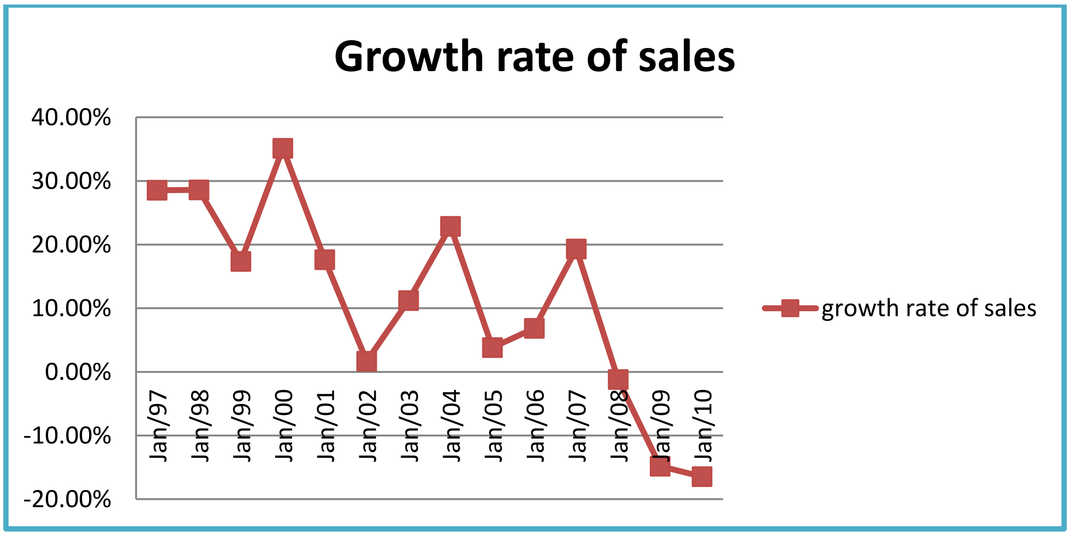
Source; Growth rates based on data Analysis

TABLE I b: Financial Data of CMC ltd - 2002 - 2010

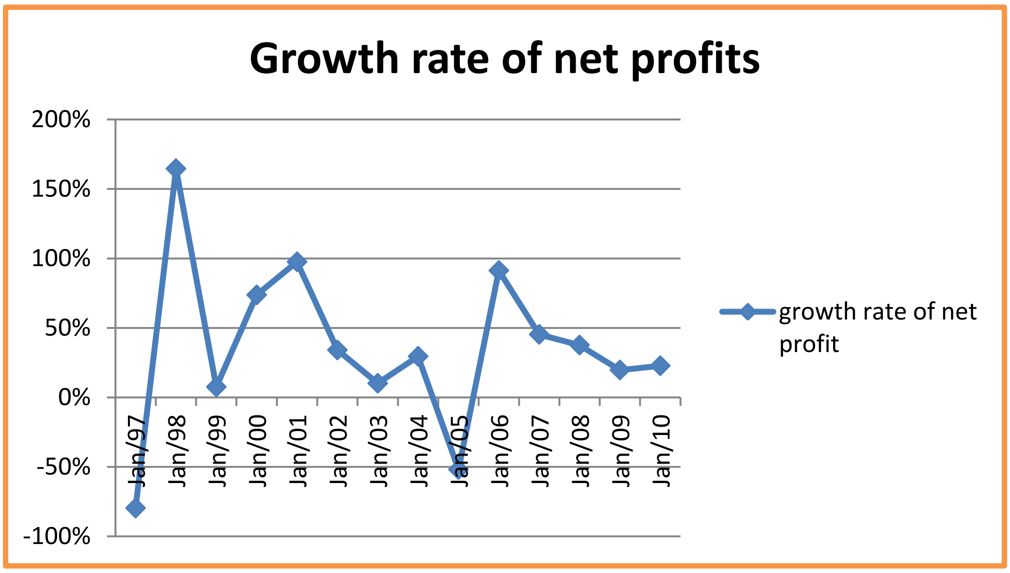
	Mar-02	Mar-03	Mar-04	Mar-05	Mar-06	Mar-07	Mar-08	Mar-09	Mar-10
Net Income/Sales (Cr)	546.7	607.99	747.07	775.67	828.79	988.91	977.19	832.41	695.46
Growth Rate Of Sales	1.68%	11.21%	22.88%	3.83%	6.85%	19.32%	-1.19%	-14.82%	-16.45%
Net Profit/Loss	33.64	37.05	47.99	23.06	44.11	64.1	88.22	105.57	129.58
Growth Rate Of Net Profit	34%	10%	30%	-52%	91%	45%	38%	20%	23%
Employees Cost	112.81	120.37	131.72	141.86	158.95	174.62	193.15	212.61	225.3
Growth Rate In Employee Costs	15%	7%	9%	8%	12%	10%	11%	10%	6%

Source; Growth rates based on data Analysis

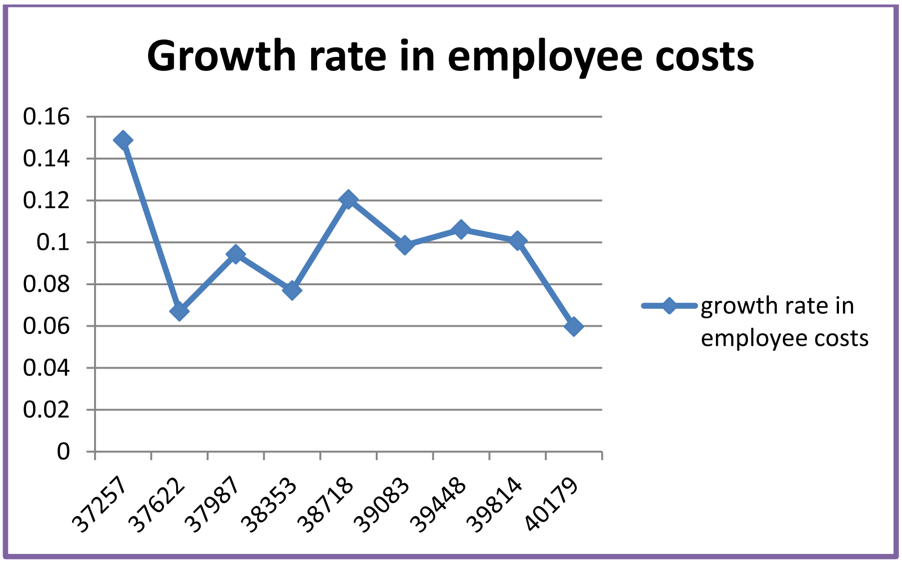
GRAPH I : The Growth Rate Of Sales - CMC Ltd



GRAPH II : The Growth Rate Of Net Profit - CMC Ltd



GRAPH III : The Growth Rate Of Employee Costs - CMC Ltd



With the Government offering 6.31% of its disinvested stake as the Employee Stock Option Plan, to the employees, in 2001 - 02, the company's profit started rising rapidly. In 2004, the Government offloaded its remaining stake in the company (26%) , to privatise CMC ltd 100%.
The new Management offered the employees a number of productivity linked incentives, mainly in terms of monetary rewards for increased efficiency and productivity of the employees. The Company also arranged for several training programmes on an annual basis to hone the skills of the employees and improve their efficiency consistently.

The data of 3 variables of the company has been analysed which highlight the change in productivity - the Annual Sales , Net Profit and employee costs incurred. The growth rates of

sales and net profit show an immediate increase in 1998 - 99, when the Government first disinvested its stake in the company. The sales showed a steep rise after 2001-02, reflecting that the productivity of the employees had risen sharply on account of the ESOP offer. The net profits too have shown a rise, though it was for a shorter duration.

The financials of the company have clearly indicated that disinvestment has improved the financial performance, and disinvestment through the route of ESOP has certainly enhanced the company's performance because of greater employee participation.

CONCLUSION:

Employee Stock Option Plans are certainly the best technique to undertake labour restructuring in a company. With more participation of the employees in management decisions, there is a lesser likelihood of labour unrest occurring in the company. This would foster more consistent production, with least interruptions in the production process, leading to greater profits obtained by the Company.

The Public Sector Enterprises, however, have not adopted this mode on large scale. The Private Companies have adopted this technique majorly and have shown drastic improvements in their company's performance, owing to greater labour participation in decision making for the company. If the Government adopts this route for disinvestment, there is a very high chance of complete corporate cum labour restructuring taking place, leading to immense improvements in the Company's performance.

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