

## **6.12 The Effect of Employee Share Ownership Plans on the Corporate Profits**

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### **ABSTRACT**

Human capital is one of key determinant of performance of a company. Many companies use several techniques or incentive plans for retain and motivate their employees. Employee Stock Ownership Plans (ESOP) recently have become popular as an employee benefit plans. Louis Kelso has been most responsible for promoting this concept during the 1950s. Traditionally stock option plans have been used as a way to reward top management and key employees and link their interest with those of the company and the other stakeholders. Now ESOP has become worldwide phenomena. The ESOP, properly adapted to Sri Lankan realities, can be a powerful means to accomplish the goal of Sri Lanka's peoplistation programmes: to transfer the share ownership of state-owned enterprises to their employees. The ESOP has been equally used in Sri Lanka's existing private sector, to expand the ownership of companies while increasing their profitability through greater employee satisfaction.

The objective of this study is to find out the impact of the ESOP to the corporate profitability of selected companies in Sri Lanka. The researches have selected three major classes of financial ratios, which include profitability, leverage and liquidity. Financial ratios are calculated for each firm and mean and the paired sample t-test was used to analyze the significance of the ESOP for the profitability of the firm.

The research population is the ESOP companies in Sri Lanka and the research sample is based on the ESOP implemented listed companies in Sri Lanka. Data was collected from three years immediately prior to the implementation and three years immediately after the implementation of the ESOP. The results indicate that ESOPs is not a significant determinant of the corporate profitability in Sri Lanka. This can be due to Sri Lankan firms are issued insignificant amount of share option to employees, most of the shares are nonvoting shares issued to the employees and most of the companies willing to adopt this plan as one of the compensation tool for the employees. This research finding is compatible with the literature findings in other countries.

**Key Words:** Employee Share Ownership Plans, Corporate Profits