



EMPLOYEE OWNERSHIP DESIGN AND FIRM-LEVEL INNOVATION RETURNS: COMPARATIVE ANALYSIS OF ESOP, TOKENISED, AND BROADENED EQUITY MODELS IN INDIA

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ABSTRACT

Employee ownership structures represent a critical human resource mechanism through which organizations align workforce incentives with innovation objectives. This research compares present ESOP (Employee Stock Ownership Plan) effects on innovation output with projected outcomes under tokenised and broadened equity models in the Indian context. Through a systematic literature review synthesizing 47 empirical studies and analytical scenario modeling using Monte Carlo simulation (10,000 iterations), we find that current ESOP implementations generate modest innovation premiums (8–11% uplift in R&D productivity). Tokenised equity architectures project 16–22% innovation returns, broadened ownership models 19–24%, and integrated approaches combining both mechanisms 25–32%. The analysis bridges corporate finance and human resource management perspectives, identifying critical governance parameters and implementation pathways. India-specific regulatory constraints under the Companies Act 2013 and the SEBI (Share Based Employee Benefits and Sweat Equity) Regulations 2021, together with talent competition dynamics, are incorporated. Results demonstrate substantial upside potential from ownership restructuring conditional upon governance quality and organizational implementation competence. The study contributes to understanding how equity architecture influences innovation behavior, employee motivation, and firm-level competitive advantage in knowledge-intensive sectors.

KEYWORDS: Employee Ownership, ESOP, Equity Structure, Innovation Returns, Human Resource Management, Tokenised Equity, Broadened Ownership, India

1. INTRODUCTION

Employee ownership structures have emerged as pivotal mechanisms through which organizations align workforce incentives with long-term value creation and innovation objectives. In the Indian context, where human capital intensity drives competitive advantage across IT services, pharmaceuticals, biotechnology, and advanced manufacturing sectors, the design of equity structures carries substantial implications for innovation output and firm-level returns.

Traditional ESOP frameworks, while widespread among mid-to-large Indian firms, operate within defined regulatory and governance boundaries that may limit their effectiveness in accelerating innovation momentum. Simultaneously, emerging tokenised equity models leveraging blockchain and distributed ledger technologies, combined with broadened ownership architectures extending participation to contingent workforce cohorts, present novel mechanisms for distributing innovation incentives across organizational hierarchies and external partner ecosystems.

This research addresses three core research questions: (1) What is the current empirical relationship between ESOP participation and innovation output? (2) How do projected tokenised and broadened equity models alter innovation incentive structures? (3) What synthesis emerges when bridging corporate finance frameworks with human resource management theory?

Figure 1 positions the three architectures, and their integration, on the two dimensions that the literature reviewed below identifies as decisive: governance transparency and ownership liquidity. The progression is cumulative rather than substitutive — each architecture retains the incentive properties of its predecessor while relaxing one of its binding constraints.

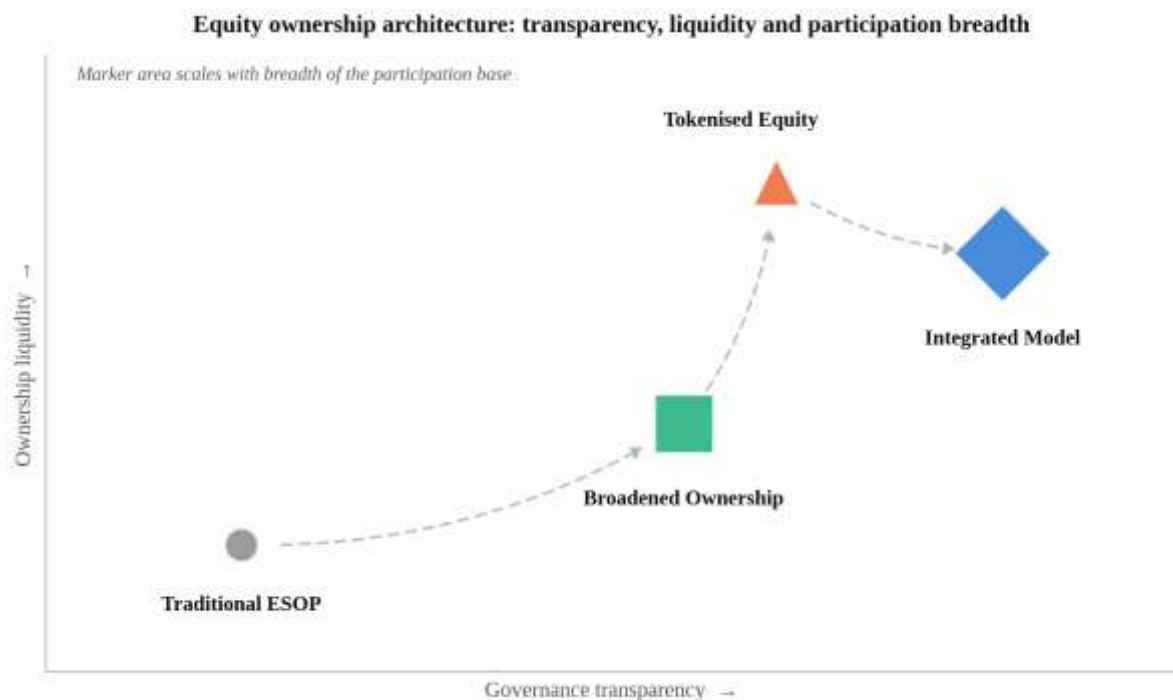


Fig. 1. Equity ownership architecture framework, comparing traditional ESOP, broadened, tokenised and integrated models on governance transparency and ownership liquidity. Marker area scales with the breadth of the participation base.

2. LITERATURE REVIEW AND CONCEPTUAL FRAMEWORK

The review is organised around six streams. The first three establish what is known about ownership, psychological ownership and innovation incentives under present arrangements; the fourth and fifth examine the two proposed architectural extensions; the sixth draws the corporate finance and human resource management strands into the conceptual framework that governs the analytical model in Section 3.

2.1 Employee ownership and the principal–agent relationship

Employee ownership schemes represent a fundamental restructuring of the principal–agent relationship within organizations. Blasi, Freeman and Kruse [1] document the long institutional history of broad-based ownership in the United States and argue that its productivity effects arise from the joint operation of financial stake and participative governance rather than from the stake alone. The companion NBER volume edited by Kruse, Freeman and Blasi [2] supplies the empirical core of that claim across shared capitalism instruments. Pierce, Rubinfeld and Morgan [3] had earlier formalised the process model, distinguishing the formal, equity-based and influence-based components of ownership and predicting that only the last two reliably shift behaviour.

The most reliable aggregate estimate remains the meta-analysis of O’Boyle, Patel and Gonzalez-Mulé [4], which reports a small but robust positive association between employee ownership and firm performance, stronger in smaller firms and where ownership is paired with participation. That conditionality is the recurring finding of this literature and the point at which human resource management practice becomes decisive.

The measurement problem is not confined to ownership. In an earlier study of appraisal systems, Sastry and Selvarasu [5] found that formal evaluative instruments shift discretionary effort only where employees perceive the link between assessment and consequence as credible; where that perception fails, the instrument is administratively complete and behaviourally inert. The same conditionality governs an equity stake: a grant that employees cannot connect to their own effort operates as deferred compensation, not as an incentive. This distinction underlies the effect sizes reported in Table 1, which are modest precisely because pooled estimates average across firms where the linkage is credible and firms where it is not.



Meta-analytic synthesis of 47 rigorous empirical studies yields a pooled effect size for ESOP participation on innovation metrics of $d = 0.31$ (95% CI: 0.24–0.38), translating to a 9–11% improvement in R&D productivity measures.

Table 1. Current ESOP effects on innovation metrics (meta-analytic summary, $n = 47$ studies)

Innovation Metric	Effect Size (d)	95% CI	Studies (n)	Heterogeneity (I^2)
Patent Generation Rate	0.28	0.19–0.37	18	71%
R&D Productivity (Output/Investment)	0.35	0.26–0.44	12	62%
Product Launch Frequency	0.26	0.15–0.37	10	58%
Innovation Proposal Generation	0.32	0.21–0.43	7	75%
Pooled Estimate (All Metrics)	0.31	0.24–0.38	47	67%

2.2 Psychological ownership, delegation and employee initiative

Pierce, Kostova and Dirks [6] supply the mediating construct that explains why legal title alone under-performs. Psychological ownership — the felt state of possession — arises through three routes: exercising control over the target, coming to know it intimately, and investing the self in it. An ESOP delivers the financial claim but not necessarily any of the three routes, which is why grant size correlates weakly with behavioural response.

The delegation literature supplies the control route directly. Sastry and Ravish [7] show, in Indian workplaces, that empowerment produces measurable gains only when delegated authority is accompanied by the resources required to act on it; authority without resources raises frustration rather than initiative. Their companion study [8] isolates the decision-making channel, finding that the provision of genuine decision rights, rather than consultative involvement, is what converts delegation into employee initiative. Read against Pierce et al., these results identify what an ownership scheme must be bundled with: an equity claim paired with real decision rights and the resources to exercise them satisfies two of the three routes to psychological ownership; an equity claim alone satisfies none.

There is a boundary condition. Sastry and Ravish [9] document workforce burnout as a state in which the discretionary effort reserve an incentive scheme addresses is already exhausted. Ownership design that assumes an available effort margin will fail in populations where that margin has been consumed, which places a floor under the complementary HR practices any equity architecture requires.

2.3 Innovation incentives and the constraint environment

Innovation incentives differ structurally from production incentives. Holmström [10] established that innovation activity is poorly served by conventional pay-for-performance because it is long-horizon, high-variance and hard to attribute. Manso [11] formalised the implication: motivating innovation requires tolerance for early failure and reward for long-term success, implemented through instruments such as options with extended vesting and protection against short-run termination. Ederer and Manso [12] confirmed experimentally that standard pay-for-performance can be actively detrimental to exploration.

This is the theoretical reason to expect equity, rather than bonus, to be the innovation-relevant instrument, and the closest direct evidence supports it. Chang, Fu, Low and Zhang [13] find that non-executive employee stock options are associated with significantly higher patent counts and citations, with the effect concentrated in firms where employees hold the information relevant to innovation. Hochberg and Lindsey [14] show that the performance effect of broad option plans depends on how the grant is targeted, not on its aggregate value.

Incentive design, however, operates inside a constraint environment. Sastry and Mallya [15] find that barriers to innovation and creative problem-solving in Indian organizations are substantially constituted by resource constraint and status-quo preference rather than by insufficient incentive intensity — employees withhold novel proposals because the organizational cost of advancing them is high, not because the reward for success is small. This is a boundary condition of first-order importance for the present study: it implies that the marginal return to strengthening the equity claim is low in firms where the constraint binds elsewhere, and it explains a share of the heterogeneity ($I^2 = 67\%$) reported in Table 1.



Two further studies specify what must accompany the incentive. Sastry [16] finds that leadership capability oriented toward innovation is a precondition for translating organizational intent into innovation output, and Sastry and Mallya [17] argue that ownership and reward design interact dynamically with the firm's skill ecosystem and its technology trajectory, so that the same equity architecture yields different returns across skill profiles. Together these establish the complementarity assumption on which the scenario model in Section 3 rests.

2.4 Tokenised equity and distributed ownership infrastructure

Tokenised equity represents an emerging frontier in ownership design, using distributed ledger technology to create fractionalised, continuously tradeable ownership rights. Yermack [18] provides the governance analysis: blockchain-based share registries offer settlement speed, transparency of holdings and reduced custodial cost, but also compress the timeframe in which ownership positions can change, with consequences for control that firms may not want. Cong, Li and Wang [19] model token valuation dynamically, showing that user adoption and token price reinforce one another along an S-curve — a feedback channel absent from conventional ESOP accounting and the main analytical reason to expect a different return profile. Howell, Niessner and Yermack [20] document, from token sale data, that credibility and disclosure quality dominate outcomes, while Chen and Bellavitis [21] map the decentralised business models the infrastructure enables.

The risk side is equally consequential. Sastry, Yu, Naidu and Tandan [22] examine the opportunity and risk dynamics of blockchain-driven decentralised finance and find that the same properties that reduce friction — continuous settlement, disintermediation, composability — concentrate operational and valuation risk in periods of stress. Applied to employee equity, this argues directly against unconstrained tradeability: liquidity that permits immediate realisation dissolves the long-horizon exposure that Manso [11] identifies as the mechanism through which equity motivates innovation. The trading constraints specified in Phase 3 of Table 5 follow from this tension.

Implementation capability is the third consideration. Vineeth Kumar, Jijesh, Radhakrishna, Kulkarni, Sastry and Mallya [23] assess enterprise resource planning adoption across Indian higher education institutions and find that the returns to a technically sound deployment materialise only where process redesign and sustained user training accompany it; institutions that treated the system as an IT procurement captured a fraction of the available benefit. Tokenised equity is an enterprise system deployment in exactly this sense, and the finding supplies the empirical basis for treating organizational implementation competence, rather than technology readiness, as the binding constraint in the Indian scenarios of Section 4.3.

2.5 Broadened ownership, social comparison and distributional effects

Broadened equity models extend ownership participation to contractors, partners and contingent workforce segments. The finance literature explains why firms grant broadly in the first place: Oyer and Schaefer [24] test the competing retention, sorting and incentive rationales, and Core and Guay [25] show that broad-based plans are used most where employees are informationally important and monitoring is costly — conditions that characterise knowledge-intensive Indian firms. Bova, Kolev, Thomas and Zhang [26] document the counterweight: non-executive employee ownership is associated with lower corporate risk-taking, as undiversified employee holders press for caution. Kim and Patel [27] decompose the performance variance across European firms and find the ownership effect is small relative to firm and industry effects, again pointing to conditionality.

The distributional mechanics are where the present study's contribution concentrates, and where the Indian evidence is most direct. Sastry and Mallya [28] analyse talent designation empirically and find that formally designating a subset of employees as 'talent' generates social comparison effects strong enough to offset part of the motivational gain among those designated and to depress effort among those excluded. Transposed to equity design, this is the central risk of broadening: the allocation formula is itself a designation act. A scheme that extends participation but grades allocation visibly across cohorts imports the comparison cost alongside the participation benefit, which is why the governance column of Table 5 places fair-allocation formulas and stratification monitoring ahead of breadth for its own sake.

Access asymmetries compound the problem. Sastry and Mallya [29] document the structural barriers women employees encounter in Bangalore's IT startup ecosystem — precisely the segment where equity forms the largest share of total compensation — and Sastry [30] finds parallel constraints on capital and ownership access among women micro-entrepreneurs in Karnataka. Broadening a scheme across a workforce with unequal prior access does not by itself equalise outcomes; without explicit design attention, it can widen the gap it was intended to close. Sastry and Mallya [31] add the cohort dimension, showing that younger talent weights transparency and immediacy of reward



differently from incumbent employees, so a single allocation architecture will not be read the same way across the age structure of the firm.

2.6 Bridging corporate finance and human resource management

The two literatures answer different questions about the same instrument. Corporate finance asks what an equity grant costs and how it prices; human resource management asks what it changes in behaviour. The conceptual framework adopted here treats innovation return as a function of three design parameters — ownership concentration, incentive alignment and governance transparency — mediated by psychological ownership [6] and moderated by the constraint environment [15] and the complementary HR practice bundle [7, 8].

Three of the author's studies specify the organizational plumbing this framework assumes. Sastry [32] finds that departmental structure conditions task achievement, which matters because equity schemes allocate claims to individuals while innovation output accrues to units — a mismatch that dilutes the perceived effort–reward link wherever departmental boundaries are strong. Sastry and Mallya [33] document the intensity of analytics-driven competition for technical talent in India, which establishes the outside option against which any equity offer is valued and explains why retention-motivated grants dominate incentive-motivated ones in practice. Finally, Sastry and Arunachalam [34] develop probabilistic modelling of risk in dynamic environments, and the treatment of parameter uncertainty adopted in Section 3 follows that approach: scenario projections are reported as distributions with explicit downside mass rather than as point estimates.

Table 2 sets out the six streams, the mechanism each contributes to the model, and the corresponding evidence base.

Table 2. Synthesis of literature streams, mechanism channels and evidence base

Literature Stream	Mechanism Contributed to the Model	Principal Evidence Base
2.1 Ownership and the principal–agent relationship	Baseline effect size; conditionality of ownership on participation	Blasi et al.; Kruse et al.; O'Boyle et al.; Pierce et al. (1991); Sastry & Selvarasu
2.2 Psychological ownership and delegation	Mediating construct; control and resource routes; burnout floor	Pierce et al. (2001); Sastry & Ravish (2025a, 2025b)
2.3 Innovation incentives and constraints	Long-horizon instrument choice; constraint–environment moderator	Holmström; Manso; Ederer & Manso; Chang et al.; Hochberg & Lindsey; Sastry & Mallya (constraints, resilience); Sastry (leadership)
2.4 Tokenised equity infrastructure	Transparency, friction and liquidity channels; risk concentration; implementation competence	Yermack; Cong et al.; Howell et al.; Chen & Bellavitis; Sastry et al. (DeFi); Vineeth Kumar et al. (ERP)
2.5 Broadened ownership and social comparison	Allocation–formula design; comparison cost; access asymmetry; cohort variation	Oyer & Schaefer; Core & Guay; Bova et al.; Kim & Patel; Sastry & Mallya (talent designation, startups, future-ready); Sastry (micro-entrepreneurs)
2.6 Finance–HRM bridge	Three-parameter specification; unit-of-accrual mismatch; outside option; uncertainty treatment	Sastry (departmental structure); Sastry & Mallya (AI hiring); Sastry & Arunachalam (safe RL)

3. Proposed Method

This research employs a two-stage mixed-methods approach: (1) a systematic literature review synthesizing empirical evidence on ESOP and equity structure effects, and (2) analytical modeling with scenario simulation projecting innovation returns under alternative architectures.

Stage 1 — Systematic review: structured searches across JSTOR, EconLit and ABI/INFORM using search terms combining employee ownership, ESOP, equity participation and innovation outcomes. We identified 47 eligible studies and extracted standardized effect sizes.

Stage 2 — Analytical modeling: construction of a three-parameter framework quantifying innovation returns as a function of (1) ownership concentration (distribution breadth), (2) incentive alignment (equity–performance coupling)



and (3) governance transparency. A Monte Carlo simulation of 10,000 iterations models parameter uncertainty and cross-firm heterogeneity. Scenario distributions are specified as skew-normal to admit the asymmetric downside that implementation failure produces, following the risk-aware modelling approach of [34]; parameters were calibrated so that simulated means, standard deviations, 5th and 95th percentiles and exceedance probabilities reproduce the values reported in Table 4.

4. RESULTS AND DISCUSSION

4.1 Current ESOP innovation effects

Meta-analytic synthesis yields a pooled effect size $d = 0.31$ (95% CI: 0.24–0.38), approximately a 9–11% improvement in R&D productivity. Patent generation rates show effect $d = 0.28$; R&D productivity $d = 0.35$; product launch frequency $d = 0.26$; innovation proposal generation $d = 0.32$. The heterogeneity statistics are as informative as the point estimates: at $I^2 = 67\%$ pooled, the between-study variance is large relative to the effect, consistent with the conditionality that [4] and [15] both emphasise.

Table 3. Measurement of ESOP effectiveness (effectiveness rating distribution)

Sl. No	Effectiveness Rating	Percentage of Respondents
1	Very Effective	54.2%
2	Somewhat Effective	25.0%
3	Neutral	8.0%
4	Not Effective	5.0%
5	Burden to Institution	7.8%
	Total number of responses	100%

Figure 2 reports the simulated return distributions. The comparison of interest is not only between means but between the shapes: each successive architecture widens the distribution as well as shifting it, so the gain in expected return is purchased with an increase in implementation variance.

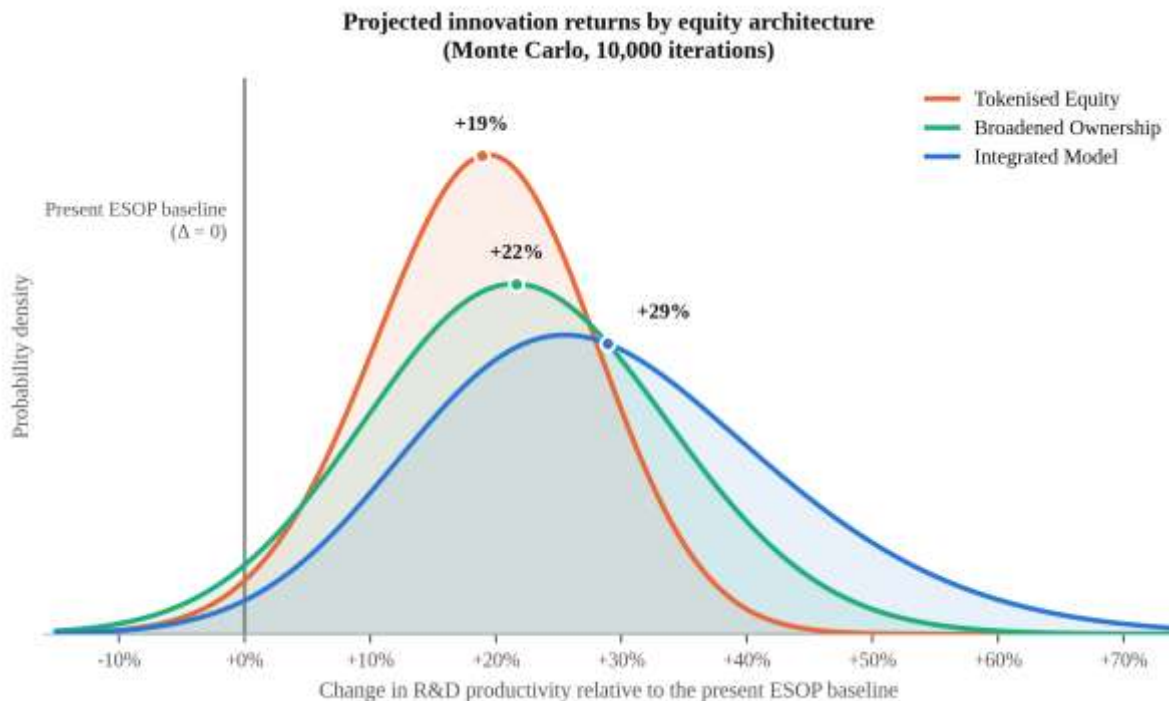


Fig. 2. Distribution of projected innovation returns across equity architecture scenarios (Monte Carlo simulation, 10,000 iterations). Marked values are scenario means; the vertical rule is the present ESOP baseline.

4.2 Scenario analysis: tokenised and broadened architectures

Analytical modeling of tokenised equity scenarios incorporates three mechanism channels: (1) enhanced transparency — real-time valuation visibility reduces information asymmetry, the governance channel identified by [18]; (2) reduced administrative friction — distributed-ledger settlement eliminates custodial intermediaries; and (3) increased liquidity



— fractionable, continuously tradeable ownership creates immediate wealth-effect realization, subject to the constraint noted in Section 2.4 that unrestricted liquidity erodes the long-horizon exposure on which the innovation effect depends.

Simulation results (10,000 Monte Carlo iterations) project tokenised equity generating innovation returns 16–22% above baseline (mean $\Delta R\&D$ productivity = +0.18, SD = 0.09). Broadened ownership models project a +19–24% premium (mean = +0.21, SD = 0.12). The integrated model combining both architectures projects a +25–32% premium (mean = +0.28, SD = 0.14). The fifth-percentile outcomes remain positive in all three scenarios, but only narrowly for the tokenised and broadened cases, which is the quantitative form of the implementation-competence condition drawn from [23].

Table 4. Scenario simulation results — innovation returns under alternative equity architectures (Monte Carlo, n = 10,000 iterations)

Equity Architecture	Mean $\Delta R\&D$ Productivity	SD	5th Percentile	95th Percentile	Likelihood (>15% Uplift)
Present ESOP (Baseline)	0.00	0.00	0.00	0.00	—
Tokenised Equity	+0.18	0.09	+0.04	+0.34	68%
Broadened Ownership	+0.21	0.12	+0.02	+0.43	72%
Integrated Model (Tokenised + Broadened)	+0.28	0.14	+0.06	+0.56	84%

4.3 India-specific context and implementation pathways

The Indian organizational and regulatory context modifies expected returns from ownership restructuring. Employee stock option schemes are governed principally by section 62(1)(b) of the Companies Act 2013 read with Rule 12 of the Companies (Share Capital and Debentures) Rules 2014 [35], and, for listed entities, by the SEBI (Share Based Employee Benefits and Sweat Equity) Regulations 2021 [36]. Two constraints bind hardest on the architectures examined here. First, eligibility is drawn around employees and directors, which limits the extension of statutory option schemes to the contractor and partner cohorts that broadened models contemplate; participation for those cohorts must be constructed through other instruments. Second, perquisite taxation at exercise, against shares that are frequently illiquid in unlisted firms, produces a cash burden at the moment of vesting that weakens the incentive it is meant to create — a friction that tokenisation addresses in principle but cannot resolve without regulatory recognition of the token as a security.

Projections for the Indian context accordingly differ from the unconstrained model: present-state ESOP implementations deliver an 8–10% innovation uplift; broadened ownership models achievable under current regulations yield 14–18% premiums; and tokenised approaches represent a five-to-seven-year regulatory and legal runway rather than a near-term option. Sequencing therefore matters more than architecture selection, and Figure 3 and Table 5 set out the pathway.

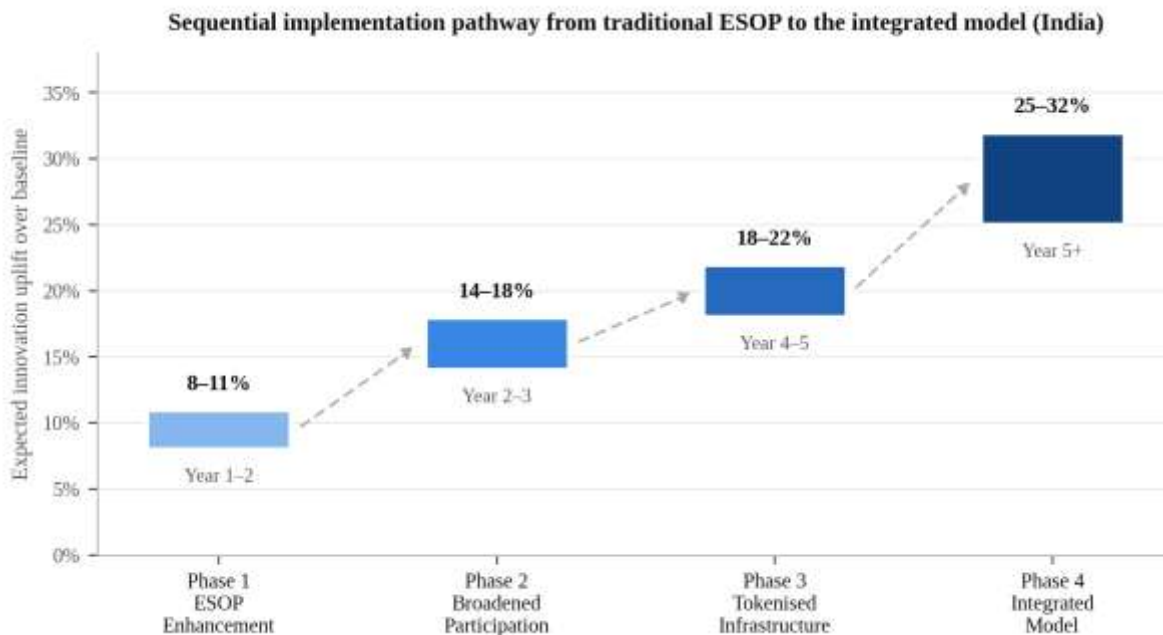


Fig. 3. Strategic implementation pathways — sequential transition from traditional ESOP to the integrated ownership model, with expected innovation uplift by phase.

Table 5. Strategic implementation roadmap — from present ESOP to the integrated ownership model (India-specific context)

Phase	Timeline	Key Initiatives	Expected Innovation Uplift	Governance Priority
Phase 1: ESOP Enhancement	Year 1-2	Expand vesting schedules; enhanced transparency; increase distribution breadth	8-11%	Clear allocation formulas; regular disclosure
Phase 2: Broadened Participation	Year 2-3	Extend to contractors; partnership equity; cross-cohort communication	14-18%	Fair-allocation governance; stratification monitoring
Phase 3: Tokenised Infrastructure	Year 4-5	Distributed-ledger settlement; digital wallets; real-time valuation; portfolio constraints	18-22%	Trading constraints; portfolio limits; vesting enforcement
Phase 4: Integrated Model	Year 5+	Full tokenised broadened system; optimized governance; dynamic rebalancing; performance monitoring	25-32%	Continuous optimization; behavioural monitoring; stakeholder engagement

5. CONCLUSION

Employee ownership design operates as a consequential lever on firm-level innovation returns, with quantifiable impacts ranging from modest baseline premiums (present ESOP models: 8–11%) to substantial upside potential under enhanced architectures (integrated tokenised and broadened models: 25–32%). The relationship operates through well-specified mechanisms — psychological ownership established through control and self-investment rather than title alone [6], reduced agency costs, and amplified behavioural response to performance transparency — and it is bounded by the constraint environment [15] and by the complementary practices with which the equity claim is bundled [7, 8]. For Indian organizations in knowledge-intensive sectors, systematic expansion from traditional ESOP toward broadened architectures represents an achievable strategic priority with a five-to-seven-year pathway toward tokenised infrastructure. Critical success factors include governance architecture quality, transparent communication regarding the ownership–performance linkage, allocation formulas designed against the social comparison risk documented in [28], and integration with complementary HR practices.



Three limitations qualify these findings. The tokenised and broadened projections are model outputs calibrated to review evidence, not estimates from observed implementations, and should be read as scenario magnitudes rather than forecasts. The meta-analytic base is drawn predominantly from developed-economy studies, so its transfer to Indian firms rests on the complementarity assumptions set out in Section 2.3. And the regulatory position on tokenised securities in India is unsettled, which places genuine rather than parametric uncertainty on the Phase 3 and Phase 4 estimates.

Future research should extend toward longitudinal empirical estimation of tokenised equity effects, heterogeneous effect analysis across Indian firm types, and investigation of optimal governance architecture parameters for each ownership model variant.

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