

THE PROSPECT OF STOCK OPTION PLANS IN KOREA

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What is a Stock Option ?

A stock option gives an employee the right to buy a certain number of shares in the company at a fixed price at a designated time. This stock option plan usually works well if companies show bright results and their share price rises sharply. Therefore, stock options are the most effective vehicle to motivate executives to

perform their best because corporate earnings improvements are directly linked to their personal gains. Consequently it improves shareholders's wealth.

Current Status of Stock Options in Korea

While stock options are popular in industrialized economies as a stimulant for performance, the

Table 1. The Securities Exchange Law about Stock Options

	Contents
Grantee	<ul style="list-style-type: none"> • employees and directors who contributed to foundation and management of company and innovation of technology • not allowed: large stockholders and their relatives. a person who will be a large stockholder by exercising stock option
Grantor	<ul style="list-style-type: none"> • listed company • registered company • venture company: a person who founded a small and medium business within 7 years. a company which developed and used new technology
Grant type	<ul style="list-style-type: none"> • new share issuance • giving stock purchased in the market • giving the right to the amount of stock appreciation
Granting process	<ul style="list-style-type: none"> • settlement of company contract • special decision of the meeting of shareholders • making a contract that grants stock option • registration to Financial Supervisory Commission • report to FSC and the Korean Securities Dealers Association and make public announcement
Grant limit	<ul style="list-style-type: none"> • listed and registered companies: 15% of total shares issued • venture companies: 50% of total shares issued • special case on the regulation of tax free: 10% by a person, 5,000 won by an year
Exercising period	<ul style="list-style-type: none"> • from the day after they have been held for three years until the day determined by the meeting of stockholders
Transfer	<ul style="list-style-type: none"> • restricted but allowed by bequest or inheritance
Supervisor	<ul style="list-style-type: none"> • Financial Supervisory Commission

system has yet to come in vogue for Korea. Therefore, the Korean government revised the Securities Exchange Law in 1997 for the purpose of introducing stock options (Table 1).

Under the revised law, stock options may be granted by issuing new shares, purchasing existing stock in the market, or allowing the right to the amount the stock has appreciated. The grant limit is 15% of total shares issued for listed companies, and 50% for venture firms.

Companies and banks have been adopting stock option plans in droves in an effort to motivate executives to work harder since the Securities Exchange Law was revised. The number of listed companies that decided they would adopt stock option programs during their annual shareholders' meetings as of the end of 1998 totalled 193, which is 30% of all listed companies.

However, even though many companies altered their Articles of Association for the purpose of adopting stock option plans, only a few have actually implemented stock option plans in reality. As of February 1999, there were only 15 listed companies which had done so. But the number of company actually adopting stock options will increase sharply because the companies that altered their Articles of Association at their shareholder meetings as of 1998 have an executive schedule (Table 2).

Suggestions

There are still a number of hurdles before stock options are introduced in a full-blown manner. First, the Korean government has to complement or revise the Securities Exchange Law and the related laws on tax reductions and exemptions. It should expand the types of stock options that can be granted and the scale of tax exemptions. Second, stock options are generally being granted to people for the sole reason that they are in the top management positions. The right to exercise stock options should be linked to

outcome of the company—for example, to objective indicators such as increase in profits, sales, or market share. If these criteria are not met, the stock options should be restricted. Third, companies should arrange a special stock-option program for their general employees, since antipathy could erupt if only a few executives and officials benefit from stock options. For example “Employee Stock Purchase Plans” or “mini-stock option plans” should also be considered by top management.

Practical Considerations

Generally, in designing a stock option program, companies need to consider carefully how many shares they are willing to make available, who will receive stock options, and how much employment will grow so that the right number of shares is granted each year. A common error is to grant too many stock options too soon, leaving no room for additional options to future employees.

One of the most important considerations for the plan design is its purpose: is the plan intended to give all employees stock in the company or to just provide benefits to some ‘key’ employees? Does the company wish to promote long-term ownership or is it an one-time benefit? Is the plan intended as a way to create employee ownership or simply a way to create an additional employee benefit? The answers to these questions will be crucial in defining specific plan characteristics such as eligibility, allocation, vesting, valuation, holding period, and stock price. **VIP**

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Table 2. The Current Status of Stock Option Plan by The Listed Companies

Name	Number of Granting Stock	Grant Type	Number and Percent of Grantees	Exercising Period
First Fire & Marine Insurance	-common stock 184,437 shares (5% of total)	-new share issuance	-1,530 persons (79% of total employees)	-after holding for 4 years and within one year
Ennex	-common stock 298,700 shares (12% of total)	-new share issuance	-136 persons (14.8% of total) • director:75,000(25.1%) • employee:223.700 74.9%)	-after holding for 3 years and within one year
Bong Shin	-common stock 20,000 shares	-new share issuance	-executive director	-
Yuhan	-common stock 389,300 shares (9.5% of total)	-new share issuance	-886 persons (70.8% of total) •director:33,000(8.5%) •employee:356,300(91.5%)	-after holding for 3 years and within one year
Jaeil Engineering	-common stock 423,360 shares (12.5% of total)	-new share issuance -grant own stock	-27 persons •director:247,541(18.5%) •employee:175,819(81.5%)	-after holding for 3 years and within 7 years
Sewoo Polymer	- 60,600 shares (2.4% of total)	-new share issuance	-24 persons •director:19,500(32%) •employee:41,100(68%)	-after holding for 3 years and within one year
Medison	- 973,720 shares (3.7% of total)	-new share issuance	-153 persons (46.24% of total) •director:455,000(46.7%) •employee:518,720(53.3%)	-after holding for 3 years and within 5 years
Sangyong Securities	-not decided	-new share issuance :if restricted,	-not decided	-after holding for 3 years and within 7 years
Dacom	-30,000shares	-new share issuance	-executive director	-after holding for 3 years and within 5 years
Korea Computer	-200,000 shares (6.4% of total)	-grant own stock	-72 persons (35.29% of total) •director:50,000(25%) •employee:150.000(75%)	-after holding for 3 years and within 2 years
Dong Wha Pharm.	- 400,000 shares (10% of total)	-new share issuance	-261 persons (29.5% of total) •director:35,600(8.9%) •employee:364,400(91.1%)	-after holding for 3 years and within one year
Dongwon Securities	- 50,000 shares (0.14% of total)	-new share issuance -grant own stock	-executive director. However, canceled by resignation	-after holding for 3 years and within 7 years
Shinsung Eng	- 274,000 shares (15% of total)	-new share issuance	-31 persons (14.7% of total) •director:50,400(18.4%) •employee:223.600(81.6%)	-after holding for 3 years and within one year
Dong-ah Construction	- 100,000 shares (0.24% of total)	-grant own stock	-executive director	-after holding for 3 years and within 7 years
Housing & Commercial Bank	- 300,000 shares	-new share issuance -grant own stock	-executive director	-after holding for 3 years and within 3 years

Note: 1) First Fire & Marine Insurance has modified the number of grantees to 1,355 and number of stocks to 183,893, on May 12, 1998.

2) Ennex has excluded 14 persons (22,000 shares) due to resignation, December 31, 1998.

3) Shinsung Eng has cancelled stock option plan by shareholders' rejection, July 29, 1998.

4) Ssangyong Investment & Securities had not decided the number of stocks and the grantees at the day of public announcement.