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A tale of two tigers: employee financial participation in Korea and Taiwan

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Abstract

This paper examines the structure and evolution of programmes for employee financial participation in South Korea and Taiwan. Reasons for the changing incidence of these programs over the post-World War II period are examined. These case studies are then placed in comparative perspective. In Taiwan, several programmes play important roles: year end bonuses in proportion to salary, profit sharing, employee ownership plans, and combination stock and profit-sharing programmes. The latter are more effective in employee retention and in reflecting genuine sharing of net income than other plans, but have been perceived as contrary to outside shareholder interests, have attracted attention in trade dumping disputes because of their non-taxed status, and function less effectively in unprofitable firms. In South Korea, ESOPs are the most prominent form of financial participation, having risen strongly in the decades prior to the 1997 financial crisis but falling at that time, due both to the crisis and to

unfavorable tax law changes. Taiwan has embraced stock options and other programmes associated with a more entrepreneurial, risk-taking culture, in common with high tech US firms. Korea's ESOP programme has more in common with those of large, established firms in the US. These differences reflect the contrast in corporate culture between the two economies, with Taiwan's economy dominated by smaller and more flexible firms, and Korea's by large conglomerates enjoying benefits of market share.

Keywords:

Korea Taiwan human resource management bonus systems incentive stock options profit sharing employee ownership Employee Stock Ownership Plans (ESOPs)

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