



Public trust in a mobile device and service policy in South Korea: The Mobile Device Distribution Improvement Act



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ABSTRACT

South Korea has the highest expenditure on telecommunications among OECD countries, drawing national attention to the issue of reducing high prices. In response, the Korean government enacted the Mobile Device Distribution Improvement (MDDI) Act to eliminate information asymmetry by limiting mobile carriers' mobile handset subsidies to consumers. This study examined factors affecting public trust in the MDDI based by analyzing responses to a questionnaire survey using the ordered probit model. The results show that the knowledge, expectations, and perceived effects of the MDDI have a meaningful effect on public trust in the policy. The results of this study confirm that it is essential for governments to promote their policies by continuously educating the public, especially in this case because the policy has a direct effect on telecommunications expenditures.

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1. Introduction

The number of mobile device users is increasing exponentially worldwide, and reached a recorded 4.27 billion (smartphone users: 1.91 billion) in 2014 (eMarketer, 2014). Mobile devices, especially smartphones, have integrated with various industries, such as finance, games, and social networking services (SNS), and so on, due to the development of application technologies, which in turn increase the frequency of use and use time. South Korea has the world's highest communications penetration rate, led by the internet, with a mobile device user population of about 44.5 million in 2015 that is projected to reach as many as 46.1 million in 2020, accounting for 90% of total population (Cisco, 2016).

The increased mobile device user population and use time have increased national communication expenditures, including device purchases and communication fees, which account for about 6% of total household expenditures (Korea Statistics, 2015). Additionally, since the Korean mobile service market has become saturated, service providers' excessive marketing costs mean that consumers are paying too much for communication expenditures.

In this situation, the government has good reasons to introduce regulation curtailing subsidy competition, which is rare in other countries. Consequently, the Korean government implemented a wide range of public services and policies to reduce prices for communications. One such policy is the recent Act on Mobile Device Distribution Improvement (MDDI), in force since October 1, 2014, which prohibits subsidies from mobile carriers or distributors based on the subscription category, tariff plan, or residence. The MDDI intended to reduce market failure and inefficiency due to the information asymmetry

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between the mobile carrier and consumers by establishing criteria and an upper limit for mobile device subsidies, an effect explained by [den Hertog \(2010\)](#).

The Korean parliament passed the MDDI law unanimously (outside of abstentions), with the aim of reducing average household spending on telecom subscriptions and correct a distorted market, though consumers and the industry remains doubtful. Meanwhile, with the 20th national assembly starting its legislative activity on June 20, 2016, controversy about amendments to the MDDI has come up to the surface. On the one hand, the MSIP (Ministry of Science, ICT, and Future Planning) argues that the law shows signs of normalizing the abnormal telecom retail structure by cooling down heated competition. The MSIP contends that the MDDI relieved skewed subsidies, which concentrated on a small number of people who are good at finding information. Additionally, the MSIP commented that one of the MDDI's positive outcomes is that the service providers provide a 20% discount option for customers who did not replace their handset or who use their own handset instead of subsidizing a new mobile handset.

On the other hand, consumer advocates assert that the law has distorted the market through price restrictions and the law should either be repealed or adjusted by removing its subsidy cap. Additionally, this side of the issue argues that the MDDI failed to decrease consumers' mobile service expenditures, ironically, due to the subsidy restrictions and reducing consumers' service plan choices. In terms of amendments, advocates state the law requires two additional clauses.¹ The People's Solidarity for Participatory Democracy (PSPD), a powerful Korean civil society organization, also claims that excessive communications expenditures due to high mobile device and service prices exist, even after the MDDI ([PSPD, 2015](#)). In conclusion, while the government favors stable policy, the public trust in the MDDI is still low.

Most policies, including telecommunication policy, can achieve their ultimate goal through efficient enforcement when it has public support. This means trust in policy and the government is a prerequisite for rational policy choices and the efficient implementation of policy alternatives ([Newton, 2001](#)). However, lots of consumers still do not trust the mobile service recommendation system, which suggests the best subscription plan based on the user's behavior, provided by service providers and the government.² Before the policy settles at a stable phase, continuous revisions will lead to confusion among the market participants such as mobile carriers, investors, and consumers, which creates social costs. Thus, this study analyzes factors related to public trust and the practical effect of the MDDI because earning the trust of public for policy and system is very urgent for the successful practice of Korean telecommunications policy. The results have implications for policymakers and may help them achieve the ultimate goal of the telecommunications policy.

This study analyzes the Korean public's knowledge of the MDDI using a model that incorporates factors identified in previous studies related to public trust in regulatory policies. These factors include the degree of knowledge ([Deurenberg-Yap et al., 2005](#); [Eriksen and Fallan, 1996](#); [Orren, 1997](#); [Sudarmadi et al., 2001](#)) and the expected and perceived effect of the policy ([Comber, 1978](#); [Vigoda-Gadot and Yuval, 2003](#)). Furthermore, this study examines the level of communication service charge planning, acceptance of government communication policies, and the degree of changes in mobile device and service prices after the introduction of the MDDI. This study uses an ordered probit choice model based on random utility theory. To control for and reduce errors in the analysis, this study uses data obtained from a questionnaire survey of respondents who used smartphones before the introduction of the MDDI and purchased their current smartphones after the introduction of the MDDI.

In the remainder of the paper, Section 2 explains the details of MDDI. Section 3 develops the hypotheses based on previous studies. Section 4 describes the model and data collection procedure. Section 5 presents the results before Section 6 concludes with a summary and discussion of this study's policy implications.

2. Mobile Device Distribution Improvement Act (MDDI)

Mobile service providers in Korea recruit customers by subsidizing customers' purchases of handsets in the competition to recruit subscribers. Thus, subsidies take up a significant portion of service providers' marketing expenses, costing about USD 6.1 billion³ annually,⁴ and regulatory policies, such as mobile number portability (churn) resulted in fierce competition between major mobile carriers. Specifically, the number of new mobile phone subscribers declined by 66.1% from 3.3 million in 2007 to 1.11 million in 2012 ([Korea Information Society Development Institute, 2013](#)), but churn increased by 22.25% from 1,019,000 customers in 2007 to 1,245,000 customers in 2012.

In particular, mobile carriers delegate authority to authorized distributors to pay subsidies based on service charges to consumers who subscribe to high-priced services, such as mobile number portability services. This creates an unclear payment structure that intensifies discrimination between mobile service users. The Korean government instituted the MDDI in 2014 to deal with the issue of increasing household communications expenditures due to the unclear subsidies and to establish a transparent and rational distribution channel for mobile devices.

¹ First, they assert that the status-quo subsidy cap does not reveal a device's MSRP (manufacturer suggest retail price) and would not reduce consumers' costs. Thus, the MDDI should require handset manufacturers to disclose their MSRP to the public to enable consumers to distinguish handset prices from subscription fees. Second, the law should include a clause related to a self-supplied handset (a mobile service subscription with unlocked phones). A self-supplied handset is a device that consumers purchase independent of a mobile carrier and are not tied to a specific mobile carrier's service.

² More than half of survey respondents in this study had negative perceptions of the mobile service recommendation system.

³ Note: All prices are given in USD; USD 1 = 1162 KRW (Korean Republic Won) (Date: June 20, 2016).

⁴ In the three years since 2009, major mobile service providers spent USD 18.3 billion on marketing expenses.

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