The Rationale Behind Media Ownership Regulation: 
An Empirical Analysis of the Korean Cable 
Television Industry*

Sang-Woo Lee** and Changwan Kim***

ABSTRACT

The Korean Broadcasting Act imposes various ownership restrictions on cable operators to foster media pluralism and content diversity. These restrictions include a limitation on the number of franchise regions that a multiple system operator may own, a ceiling on foreign share-holding in a cable company, and entry regulation. This study empirically investigates the content diversity of cable operators under different ownership conditions. Using a sample of 100 cable companies, we find that the relationship between cable ownership structure and diversity is not clear. Descriptive statistics and mean difference tests suggest that all of the cable operators offer very similar programs, regardless of their ownership structure. The channel diversity of MSOs is not different from that of independent cable operators. Furthermore, we did not find any meaningful difference in channel diversity between regions with competition or monopolies, or between cable operators without foreign ownership and those with foreign ownership.

Key words: Korean broadcasting act, Ownership, Cable operators, Media pluralism, Media diversity, Cable television industry

* Manuscript was received: 2011. 6. 23, revised: 2011. 10. 6, accepted: 2011. 10. 10

* This work was supported by the National Research Foundation of Korea Grant funded by the Korean Government (NRF-2010-332-B00642)

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I. INTRODUCTION

“Grand National Party lawmakers… introduced controversial media bills. The GNP strongly supports the bills, which it said would strengthen the country’s broadcasting and telecommunications industries, while the Democratic Party has argued it would allow local conglomerates to influence TV news... In protest of the Grand National Party’s action, the National Union of Media Workers said yesterday that it will start a general strike at 6 a.m. today. The union also held a rally in Yeouido, where the National Assembly is located…” (Kim & Jung, Feb 2009).

“Some of the ugliest scenes in the republic's legislative history were staged last week, as ruling and opposition lawmakers clashed physically over the introduction of law bills. Assemblymen and their assistants used all kinds of tools, including a sledge-hammer and an electric saw, to break into a committee chamber which was locked from the inside by ruling party members. Assembly employees sprayed chemicals from fire extinguishers to disperse Assemblymen blocking the entrance to another chamber. Scores of opposition members have forcibly occupied the speaker's rostrum for days in an attempt to prevent the ruling party from passing their bills…” (Korean Herald Editorial, 2008, December).

“Korea and the U.S. … agreed to allow 100 percent ownership of cable networks for U.S. firms that establish a Korean subsidiary… The Korean government says the deal will introduce a new era in the Korean cable television industry, making it more competitive. …However, media critics as well as existing Korean cable networks have reacted fiercely, saying they are not ready. …According to the cable television association, the FTA guideline has opened the door for foreign firms to control the Korean market in the future, because it is nearly impossible for Korean cable networks to compete with U.S.-made productions that control 46 percent of the world's video market industry. The cable TV association argued that U.S.A.-made programs already account for 78.9 percent of imported programs in Korea, and the dominance of foreign content would expand if the market fully opened its door”(Cho, 2007, April).

The first two articles highlight the disputes regarding the recent parliamentary vote on controversial measures to deregulate media ownership in Korea. The Korean government seeks to rewrite the Broadcasting Act to ease entry barriers for newspapers, large businesses with assets of over 10 trillion won, and foreigners. At
the end of 2008, the ruling Grand National Party introduced a package of 22 related bills to the parliamentary committee on culture and media affairs. At the center of the dispute are a group of bills that will allow large conglomerates and newspapers to increase their stake in terrestrial broadcasting stations and cable networks permitted to air news programs. Newspapers and large conglomerates will be allowed to have a 20 percent stake in terrestrial broadcasters and 49 percent of general and news-only cable channels. Foreigners will also be allowed to own up to 20 percent of general and news-only cable channels. The conservative Grand National Party advocates the measure as necessary to increase investment to allow industry development and to upgrade the legal framework to accommodate the convergence of mass media. The Korea Communications Commission (KCC) said the deregulation move will help the nation's media outlets grow through mergers and acquisitions and raise their global competitiveness. However, opponents claim the change would pave the way for dominance of the media by major newspaper publishers and conglomerates. The government measures face fierce resistance from civic groups and broadcasting unions. Critics argue that cross-media ownership and conglomerates' involvement in media business will enable large firms and conservative newspapers to manipulate public opinion through television stations and newspapers. Media watch and civic groups in Korea are threatening to take legal action against the KCC over its decision to relax media ownership restrictions. The groups say the move by the KCC opens the way for money to enter media, thus harming the diversity of Korean media markets.

The third article is about the controversy surrounding the free trade agreement between Korea and the U.S.A. Current Korean law prohibits foreign companies from directly holding more than 49 percent of shares of cable networks. Within five years, however, American companies will be permitted to own 100 percent of Korean cable networks by indirect investment through subsidiaries under their control. The FTA has yet to approve this legislation. According to this association, foreigners' control of cable networks in Korea may harm the public interest because foreigners may focus on commercial programs that have economic benefits, thus reducing program diversity in cable television.

The logic behind media ownership regulation in Korea is that deregulation of the media industry may lead to over-commercialization of the media content, thus harming the content diversity. This logic has been extended to cable industry in various ways. In the early days of cable, the Korean government prohibited both
conglomerates and foreigners from having shares in cable operators because their entry into the cable market was regarded as market domination by monopolistic and oligopolistic enterprises that would decrease content diversity. Recently, cable ownership regulations were relaxed; conglomerates can own cable systems without any ownership limit, but shareholding by foreigners is still limited. Another regulatory hurdle posed by the cable television industry's legacy regulatory framework is that an operator’s national market share is limited to 33% in terms of total subscribers. Thus, it is impossible for a single MSO to operate nationwide.

On the other hand, only one or two operators are allowed in a cable franchise region, which reflects the fear of commercialization due to excessive market competition in the cable franchise region. Although cable monopoly franchise regulation may be justified on the natural monopoly characteristics of cable television services, such a cable franchise regulation may be conflicted with the above explained strict cable ownership regulation. Cable ownership limitation against foreigners and conglomerates was based on the concern with both excessive commercialization and content diversity. However, domestic operators’ monopoly or duopoly ownership in a cable franchise region could harm content diversity.

Accordingly, although cable ownership regulations in Korea have been justified to both protect commercialization and maintain content diversity, such regulations were full of contradiction. Upholders of cable ownership regulation for either foreigners or conglomerates have a negative opinion of media concentration. On the contrary, cable franchise regulation is to promote cable ownership concentration in a franchise region.

However, the pro-market camp argues that increased competition as a result of digitization will have positive effects on the content diversity in the cable television industry. It is clear that a global transition to a market-oriented economy and the digital convergence of telecommunications and broadcasting requires the broad-scale transformation of traditional media regulations: existing media policies objectives and frameworks based on the content diversity are now facing challenges. This is because drastic changes in the media landscape - the rapid development of

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1 The maximum allowable portion of foreign shares in a system operator is 49%.
2 The number of franchise regions amounts to 77.
3 Cable ownership regulations, such as either foreign ownership or conglomerates' ownership, have been criticized because such regulations were recognized of the government's protection of established cable operators against fierce competition in the MVPD industry.
media technology and the resulting competitive media market - are incompatible with the outdated media ownership regulations. Spectrum scarcity and the effects of media on society are not sufficient conditions for media ownership regulation.

In sum, the relationship between media ownership and content diversity in the media market can be explained in two contrary ways: one is that free market without ownership regulation undermines the content diversity, while the other is that media ownership has no direct connection to or effect on content diversity. The former emphasizes the necessity of government regulation by means of monopoly control or entry regulations, while the latter stresses that the hasty intervention of the government will not serve the content diversity and may even reduce market efficiency.

Despite the fact that the debates surrounding ownership restrictions have been raging for several years, few empirical studies of the relationship between ownership characteristics and content diversity have been initiated. The empirical validity of the two arguments still remains an open question. In this study, we address the following question: Does ownership regulation in the Korean cable television market improve the content diversity? To answer this question, we empirically analyze how the content offered by cable channels varies in accordance with variations in market and ownership conditions. The testable hypotheses are as follows:

Hypothesis 1: There is a significant difference in content diversity between MSO and independent SO.
Hypothesis 2: There is a significant difference in content diversity between foreigner-owned cable operators and domestic cable operators.
Hypothesis 3. There is a significant difference in content diversity between competitive markets and monopolistic markets⁴.

To test these hypotheses, we employed a reliable and robust diversity index to assess regional cable markets and the effects of existing cable ownership regulations on levels of diversity within these markets.

⁴ Competitive markets mean the franchise zones that have two cable system operators competing with each other. Monopolistic markets include all the non-competitive franchise zones.
Ⅱ. MEDIA OWNERSHIP REGULATION IN THE UNITED STATES AND KOREA

In Section 202(h) of the Telecommunications Act of 1996, the Federal Communications Commission (FCC) was required to review its media ownership rules “to determine whether any of such rules are necessary in the public interest as the result of competition” (Section 202(h), 110 Stat. at 111-112). The FCC was also required to “repeal or modify any regulation it determines to be no longer in the public interest” (Section 202(h), 110, Stat. at 111-112). This prompted the FCC to conduct a series of research projects on a wide range of issues relevant to media ownership, such as the relationship between ownership of media content/outlets and the diversity of content provided (Einstein, 2002; Pritchard, 2002). Based on these studies, the FCC relaxed a wide range of media ownership regulations, such as the local television ownership rule, the broadcast-newspaper cross-ownership rule, and the national television ownership rule (FCC, 2003). In addition, the U. S. A. has no cable ownership regulations prohibiting ownership or share-holding by conglomerates or foreigners, although the FCC’s horizontal limit bars a cable operator from having an attributable interest in more than 30 percent of nationwide subscriptionship of multi-channel video-programming.

In contrast, there exist strong ownership regulations in many ways in Korea's media industry. That is because past military regime controlled the media historically as well as industry-specific legitimate of regulation through a diversity of ownership to secure the availability of a pluralistic media.

Korea has had various forms of ownership restrictions in the media industry. Korea's terrestrial TV started in 1961 as a public broadcasting service. However, except the new entrances of private terrestrial broadcasting television services, the ownership regulation has been virtually not changed until 2009. Prior to 2009, Korea's terrestrial broadcasts have been deployed along with political situations. In 1961, terrestrial broadcasts began with the birth of national Public broadcasting system. Afterward, until the early 1970s, public broadcasting and private broadcasting was kept in coexistence with the beginning of two private broadcasting. Since 1972 the media control was forced by military regime and terrestrial broadcasting was merged by force in 1980. Under the military regime, all terrestrial broadcasters were incorporated into public broadcasters through the change of ownership. After the military government was expelled in 1987, public broadcasting and private broadcasting was kept in coexistence again. In this period, new private broadcasts have been established in Seoul and other areas, and this coexistence system has continued until now.
involving a large stake from conglomerate and newspaper Company has been banned, and one person can hold the maximum stake limit of 30% or less of the particular terrestrial broadcasting company. Moreover, foreign investors are not allowed to own stakes in terrestrial broadcasters. The amended Broadcasting Law of 2009 eased the ownership restrictions. Newspaper and large conglomerates are able to own up to 10% in a terrestrial broadcasting company. However, equity participation of foreign capital is prohibited in terrestrial broadcasting, and the terrestrial broadcasters are not allowed to own cable TV companies.

Except for 2009, ownership regulation for terrestrial broadcasting company has been rarely changed, while that of cable television operators has been changed several times. Korea's cable TV service started at 1995 and the initial cable law designed the cable industry's structure through very strict ownership regulation. As with other countries, Korea's cable television industry can be divided into three groups- program providers, network operators and cable television operators. And the initial characteristic of the cable law was prohibition of holding stocks among these three sectors with strict segregation of these sectors. In addition, to operate the business of these three business sectors, the government approval was required. In particular, conglomerates, terrestrial broadcasters, and foreign capital were prohibited to own cable operators. Also, one cable operators could run the business within one franchise so that the formation of MSO was impossible. The cable TV operator industry that had a separate industrial structure was sharply worsened in 1997 due to the Asian financial crisis. In other words, the financial crisis that led Korea's economy to a recession made worse the cable TV business and its profit. Cable TV operators that had raised the fund of their business through primarily on debt got knocked out from high interest rates and exchange rates. In addition, network operators came to give up the network business because they are not willing to take large-scale network projects under the recession.

In order to overcome economic crisis, the Korean government took the deregulatory movement in economy-wide, which also brought the deregulation to cable television market. Under the new regulatory regime, cable television operators were able to posses the transmission networks. Besides, conglomerates were able to provide the cable service and foreign capitals could buy shares up to

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6 At this time, the accumulated deficit of cable operators was about $1,494 billion (Korea Cable Television Association, 1998)
49%. Also, horizontal integration between cable operators became possible. Moreover, a single operator could merge as many as cables, but only up to 33 percent of all cable revenue and as much as 1 / 5 of all 77 Korea's cable division could be merged. This ownership regulation continued until 2008, but the Broadcasting Act of 2009 eased cable ownership limit so that cable operators are able to merge as many as cable companies to the extent the total number of one cable operators’ subscribers is less than 1 / 3 of all cable subscribers.

Despite the deregulation of cable ownership, some restrictions still exist, such as entry regulation, such as exclusive franchise license, cable operators’ horizontal subscriber limit and foreign investment restrictions are still existent. Why? The Korean government still thinks that it is reasonable to grant the exclusive franchise right to cable television markets because cable television service is a natural monopoly. In addition, a competitive market system in a franchise region could cause excessive commercial content competition, so it should be avoided. This logic affected the opposition of introduction of DBS and IPTV services in Korea. Actually, it took about 5 years for IPTV services to be introduced in Korea, although IPTV services were ready to provide services technically. The Korean government is still concerned about big cable operators, who could affect content diversity in the cable television market and the horizontal subscriber limit is still justified. Limit of foreign investment is also justified because foreign cable operators may be in the pursuit of commercial interests.

### III. PREVIOUS STUDIES

#### 1. Media Ownership and Diversity

According to Einstein (2004), the value of diversity stems from two principles – the First Amendment and the “marketplace of ideas” metaphor. Under the First Amendment, the government cannot regulate speech that is associated with ideas. This is because people are free to express their ideas through the media. In this context, diversity is important because it provides a wide range of views and opinions that people can choose to listen to. However, the First Amendment does not apply to the case of horizontal integration between cable operators. Therefore, the government needs to regulate cable operators to maintain diversity in the media.

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7 DBS service was introduced in 2004 and IPTV services actually began in 2008. In 2009, the number of cable TV subscribers is 15, 14 million, DBS is 2.37 million, and IPTV is 1.69 million.

8 The concern for foreign investment in the cable TV service started in the Free Trade Agreement (FTA) negotiations between Korea and the U.S. At that time, the U.S. asked an open market in the field of cable programming market. In response, the Korean government argued that the U.S.’ entry into Korean cable programming market could lead to excessive commercial and rating competition.
Amendment, “a free and open communication marketplace will create a multitude of voices and opinions that will allow for robust debate on the part of the citizenry so that they may become well informed and full participants in a democratic society” (Levin, 2004, p. 1). However, because market forces alone cannot achieve an idealized marketplace of ideas, government regulation is justified.

To achieve diversity in the media industry, two opposing strategies - open market or government regulation - can be taken. Proponents for government regulation argue that media content varies in accordance with variations in ownership conditions. Based on this belief, government intervention in the media ownership is justified. Proponents of this approach view some governmental intervention as potentially beneficial to society. Recently, however, the increased diversity of video media services and channels has prompted deregulation of media ownership. Pro-market camps argue that competition and the increase of diverse media sources can lead to an increase in content diversity, and media ownership regulation is no longer needed to ensure that the public interest is served (De Jong & Bates, 1991). Furthermore, the First Amendment ensures that the government does not reduce diversity by regulating the marketplace of ideas. This view emphasizes competition among market players without unnecessary governmental interference.

From the above, it is clear that the two different viewpoints of media ownership share the common ground that diversity should be the primary goal of communications policy. However, they disagree as to the strategy that should be taken to achieve this goal. Entman & Wildman (1992) attribute this disagreement to a faulty understanding of what diversity is, can be, and should be.

Generally, three distinct definitions of diversity - source diversity, content diversity, and exposure diversity - have been employed in media policy analysis. Media ownership regulation is based on the assumption that these three categories are interrelated. That is, diversity in the sources of information is assumed to be causally related to diversity of content, and an increase in the diversity of available content may translate into an increase in the diversity of content consumed by audiences (Napoli, 1999). However, the results of empirical studies investigating the relationship between source and content diversity have been inconsistent. Furthermore, courts have found no relationship between source and content diversity (Lutheran Church-Missouri Synod v. Federal Communications Commission, 1998; Lamprecht v. Federal Communications Commission, 1992; Metro Broadcasting
The relationship between content diversity and exposure diversity has been neglected in communication studies. McQuail (1992) defines exposure diversity as diversity of content “as received.” To increase exposure diversity, audiences should be exposed to diverse types and formats of programming and consume these diverse programming. However, it is difficult to measure if audiences actually consume diverse programming equally. Furthermore, policy makers cannot make policies that directly affect audiences’ consumption habits (Napoli, 1999).

2. Cable Ownership and Channel Diversity

Previous studies have tried to answer the following questions: Does diversity exist in cable television? Does diversity increase or decrease depending on the degree of cable ownership regulation? To answer these questions, it is important to be able to measure diversity in cable television.

This study investigates the relationship between source diversity and content diversity in the Korean cable television industry. Generally, source diversity has been conceptualized in three ways: 1) the diversity of ownership of content or programming, 2) the diversity of ownership of media outlets, 3) the diversity of the workforce within individual media outlets. In this study, we focus on content ownership as a measure of source diversity. In particular, we focus on the owners of cable systems. Cable television systems generally actively decide which sources of programming to distribute. This means that cable systems are active programmers who may favor certain channel owners over others. Policies designed to enhance cable ownership diversity are based on the assumption that a greater diversity of cable systems leads to a greater diversity of cable channels. That is why the Korea Communications Commission (KCC) has traditionally been concerned about source diversity in the distribution process. Along these lines, the KCC has placed national limits on cable system ownership and restricted foreign ownership of cable systems. However, the KCC has used ownership diversity as a proxy for content diversity, assuming that content diversity stems from ownership diversity.

Content diversity in cable television refers to the category designations given to cable channel formats. Because cable operators decide which channels to carry, although they do not select the specific programs, the diversity in cable television is
generally defined in terms of the channels made available to subscribers rather than in terms of specific programs. The problem with this definition is that it ignores programming differences between channels; nevertheless, for the most part, cable channels generally provide similar program types. Another problem is that research on program categories has been inconsistent in terms of the degree to which channel classifications effectively differentiate viewer preferences (Ehrenberg, 1968; Frank, Becknell, & Clokey, 1971; Kirsch & Banks, 1962; Lehman, 1971; Levin, 1980; Rao, 1975; Webster & Wakshlag, 1983). That is, researchers have used different typologies of program categories. For example, some researchers have developed their own program typologies (Dominick & Pearce, 1976; Grant, 1994), while others have used the program typologies used by rating organizations (Napoli, 1997; Wakshlag & Adams, 1985).

### IV. METHODS AND DATA SOURCE

This study compares the degree of program diversity between various cable system operator groups based on ownership characteristics. For this purpose, we need a measure of program diversity, a classification scheme for program types, and information on system and ownership characteristics.

In this study, we use the Herfindahl-Hirschman Index (HHI), in addition to traditional absolute diversity and relative diversity measures, as a primary channel diversity measure. Formally, the channel diversity index for operator \( j \) is defined as

\[
H_j = \sum_{i=1}^{n} S_{ij}^2,
\]

where \( S_{ij} \) is the number of type \( i \) programs divided by the total number of programs a system operator \( j \) offers, and \( n \) is the number of types. This index is a measure of the size of types in relation to the number of programs a cable system provides. For example, when the portion of each type is evenly distributed, that is, a system operator offers a well-diversified menu, the index has a smaller value than if a system operator provides only a few types of program. The absolute diversity measure how many different channel types are carried in a cable system. Levin (1971, 1980) defined absolute diversity as the number of different channel types.

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9 The Broadcasting Act requires that at least 80% of a channel should comprise similar program types.

10 See Litman (1979) and Hill (2006) for discussion on using HHI in media diversity.
types carried by a cable system divided by the total number of channel types for the entire cable industry. Thus, this measures the degree of total potential diversity any cable system gets. On the other hand, relative diversity is defined as the number of different channel types divided by the channel capacity of any cable system. This measures how many diverse programming services any cable system carries, depending on its available channel capacity. De Jong & Bates (1991) developed average diversity measure, which is defined as the simple average of the absolute and relative diversity measures. If the absolute diversity are significantly different, although the relative diversity are not different, the channel capacity are highly correlated with the absolute diversity measure.

The two primary data sources that we used are each system operator’s website and the 2008 edition of the Annual Survey of Korean Broadcasting Industry that was compiled from survey responses of system operators and program providers. We collected channel information from each cable company’s website in the February of 2008. The information collected from websites included the name and nature of programs and the numbers of channels provided in each tier. Based on the channel information, we assigned each channel into one of 26 types.11 At the end of 2007, there were 188 channel providers registered with the Korean government. However, not all of the providers were active. The total number of channels carried by at least one system operator was 144. Therefore, we classified these 144 channels into 26 categories. The annual survey contains system information about owners and whether they are competitive operators in a franchise zone.12 Ownership characteristics were used as criteria for grouping operators into subgroups. The first criterion was whether a system operator belongs to a MSO. The Broadcasting Act defines an operator as a member of a MSO if they share a common principle, the biggest shareholder in each member firm. The second criterion was whether foreign investors held shares in the firm. We applied the concept of beneficial ownership to trace foreign investments.

11 See the appendix for details.
12 The 77 cable franchise regions consist of 25 overbuilt regions, which include 18 competitive regions and 52 monopolistic regions.
V. EMPIRICAL RESULTS

1. Basic data description

According to the annual survey, there were 103 cable companies operating in 77 franchise zones at the end of 2007. Among those firms, 80 operators belonged to eight MSOs:\(^{13}\) Foreign investors had influence in 50 operators through direct and indirect ownership. A typical operator offered at least two services: basic and extended basic services.\(^ {14}\) We began the data collection procedure with 103 firms; however, missing information for program offering left us with 100 observations for basic service, 98 for extended basic service, and 96 for premium services.

Figure 1 depicts the cumulative distribution of the number of channels, classified by program types, carried by whole cable operators. This graph indicates that the top five channel types occupy over 50\% of all the channels provided in Korea.

*Figure 1. Cumulative distribution of channel types.*

\(^{13}\) The market share of those 8 MSOs amounted to 81.3\%. The largest MSO, with 15 member firms, occupied 21.2\% of whole cable-TV market revenue.

\(^{14}\) The maximum number of tiers offered by our sample firms was five. However, not all of the firms offered premium services.
2. Mean comparisons

In table 1 and 2, we calculate absolute diversity and relative diversity of each tier for each system operator, and compared the means of these measures for various subgroups. The first panel compares the means of the measures for firms affiliated with a MSO and firms not affiliated with a MSO. In the second panel, the means for firms in a competitive market and in a monopolistic market were compared. The third panel reports the means for firms with and without foreign ownership. The last panel shows the overall averages for each category.

Some patterns are observed. For the extended basic service, which is the most popular service in Korea, there are virtually no differences in the degree of diversity across subgroups. Also, the overall averages are very similar to the means of corresponding subgroups. However, in the basic service, the operators in competitive franchise zones offer more diversified programming. Also, the firms with foreign ownership showed more program diversity in their premium service.

Table 1. Mean comparison of content diversity: absolute diversity

<table>
<thead>
<tr>
<th></th>
<th>MSO</th>
<th>others</th>
<th>Competit</th>
<th>others</th>
<th>Foreign</th>
<th>others</th>
<th>Total</th>
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</thead>
<tbody>
<tr>
<td>Basic</td>
<td>.31</td>
<td>.32</td>
<td>.34</td>
<td>.31</td>
<td>.33</td>
<td>.31</td>
<td>.32</td>
</tr>
<tr>
<td>obs.</td>
<td>79</td>
<td>21</td>
<td>34</td>
<td>66</td>
<td>50</td>
<td>50</td>
<td>100</td>
</tr>
<tr>
<td>Extended basic</td>
<td>.61</td>
<td>.64</td>
<td>.63</td>
<td>.61</td>
<td>.61</td>
<td>.62</td>
<td>.61</td>
</tr>
<tr>
<td>obs.</td>
<td>77</td>
<td>21</td>
<td>34</td>
<td>64</td>
<td>48</td>
<td>50</td>
<td>98</td>
</tr>
<tr>
<td>Premium</td>
<td>.77</td>
<td>.76</td>
<td>.77</td>
<td>.77</td>
<td>.78</td>
<td>.77</td>
<td>.77</td>
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<tr>
<td>obs.</td>
<td>74</td>
<td>22</td>
<td>36</td>
<td>60</td>
<td>44</td>
<td>52</td>
<td>96</td>
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</tbody>
</table>

Notes: *, ** indicate significance at 5% and 1% level
The Rationale Behind Media Ownership Regulation

Table 2. Mean comparison of content diversity: relative diversity

<table>
<thead>
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<th></th>
<th>MSO others</th>
<th>Competiti others</th>
<th>Foreign others</th>
<th>Total</th>
</tr>
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<tbody>
<tr>
<td>Basic</td>
<td>.12 (.21)</td>
<td>.13 (.238)*</td>
<td>.12 (.153)</td>
<td>.12</td>
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<tr>
<td>obs.</td>
<td>79</td>
<td>34</td>
<td>50</td>
<td>100</td>
</tr>
<tr>
<td>Extended basic</td>
<td>.23 (.13)</td>
<td>.23 (.64)</td>
<td>.23 (.12)</td>
<td>.23</td>
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<tr>
<td>obs.</td>
<td>77</td>
<td>34</td>
<td>48</td>
<td>98</td>
</tr>
<tr>
<td>Premium</td>
<td>.29 (.280)**</td>
<td>.29 (.107)</td>
<td>.30 (.274)**</td>
<td>.29</td>
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<tr>
<td>obs.</td>
<td>74</td>
<td>36</td>
<td>44</td>
<td>96</td>
</tr>
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</table>

Notes: *, ** indicate significance at 5% and 1% level

The results of whether ownership characteristics affect the degree of content diversity, in this case HHI index, are reported in Table 3. We redo the comparison procedure described in the above tables. Each of the first three panels reports the means of the diversity index HHI of firms with different characteristics. The last panel reports the overall average of the index for each category. The t-values for difference tests between groups are provided in parentheses. For MSO effects, none of the means were statistically significant, regardless of the tier. In the second panel, the HHI index for basic service was significantly greater in a monopolistic market. This indicates that firms in competitive franchise zones deliver more diversified channels. However, this result does not hold for extended basic and premium services. The third panel reports no significant differences in the means between two groups in this comparison. In sum, there are no consistent or meaningful differences in program diversity between cable companies under different ownership conditions.
Table 3. Mean comparison of content diversity: HHI.

<table>
<thead>
<tr>
<th></th>
<th>MSO</th>
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<th>Competitive others</th>
<th>Foreign others</th>
<th>Total</th>
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<tr>
<td></td>
<td></td>
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</tr>
<tr>
<td>Basic</td>
<td>1730</td>
<td>1738</td>
<td>1610</td>
<td>1795</td>
<td>1760</td>
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<tr>
<td></td>
<td>(t=.09)</td>
<td></td>
<td>(t=2.58)*</td>
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<tr>
<td>obs.</td>
<td>79</td>
<td>21</td>
<td>34</td>
<td>66</td>
<td></td>
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<td></td>
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<tr>
<td>Extended</td>
<td>870</td>
<td>836</td>
<td>827</td>
<td>882</td>
<td>875</td>
</tr>
<tr>
<td>basic</td>
<td></td>
<td></td>
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<td></td>
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<td></td>
<td>(t=.73)</td>
<td></td>
<td>(t=1.39)</td>
<td>(t=.59)</td>
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<tr>
<td>obs.</td>
<td>77</td>
<td>21</td>
<td>34</td>
<td>64</td>
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<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Premium</td>
<td>642</td>
<td>652</td>
<td>635</td>
<td>650</td>
<td>641</td>
</tr>
<tr>
<td></td>
<td>(t=.96)</td>
<td></td>
<td>(t=1.67)</td>
<td>(t=.71)</td>
<td></td>
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<tr>
<td>obs.</td>
<td>74</td>
<td>22</td>
<td>36</td>
<td>60</td>
<td>44</td>
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</table>

Notes: *, ** indicate significance at 5% and 1% level

VI. CONCLUSIONS

In Korea, cable ownership regulations, in the name of content diversity, have been used to protect incumbent cable operators from competition. For example, cable franchise regulations have been used to create market power and entrench cable monopolies. The Korean government also wanted to control the cable television industry, while incumbent cable operators wanted to gain monopoly rights in exchange for government regulation.

Nevertheless, exclusive cable franchise has been justified to ensure media diversity because the introduction of competition in the cable television market was regarded to lead to excessive commercial content competition. However, faced with technological development, the introduction of new media, such as DBS and IPTV services, could not be avoided. In order to slow down the introduction of new media, the established cable operators argued that media ownership regulation ensures media pluralism and content diversity i.e. securing the "diversity of content" through the "diversity of cable suppliers." According to cable operators, both telecommunications companies’ and foreign companies’ entry into cable television market may monopolize pay TV market because of their big pocket. This argument
has led to market share limitations of a particular pay TV operator and the limitation of foreign investment in the cable industry in Korea.

However, the relationship between cable ownership concentration and diversity is not clear. Ownership concentration may lead to various program types of neutral content, and may even increase the diversity of programs. Large firms may be better placed than small firms to provide innovative products and produce various kinds of programs. That is, higher levels of market domination mean fewer competing suppliers; fewer competing suppliers implies a more cost-effective use of resources, while the availability of more resources for innovation implies an increased range of output and higher diversity output implies greater pluralism. This implies that concentrated ownership may actually increase pluralism. Furthermore, ownership diversity may not necessarily lead to content diversity. Additionally, government regulation under the pretext of public interest obligations is no longer necessary when it does not increase the diversity of programs; it may even cause inefficiency in the media sector.

In summary, media ownership regulation should not be based on an intuitive approach, but should be based on empirical analyses. However, in Korea, the debates over ownership regulation have not taken into account measures of content diversity. In this study, we empirically investigated the relationship between content diversity and ownership regulation in the Korean cable industry. Using a sample of 100 companies, we found that the relationship between cable ownership structure and diversity is not clear. Descriptive statistics and mean difference tests suggest that all of the cable operators offer very similar programs, regardless of their ownership structure. The channel diversity of MSOs is not different from that of independent cable operators. In addition, we did not find any meaningful difference in channel diversity between regions in which there was competition or a monopoly, or between cable operators without foreign ownership and cable operators that had foreign ownership.

The results of this study have several policy implications.

The argument for media ownership regulation emphasizes that if various media sources have a certain market share in the media market, pluralism and diversity will increase, which may lead to a furthering of the public interest. However, this argument does not consider the potential inefficiency of media operators in the situation where competition is not allowed. When new entry is systematically blocked, competition is impossible, which consequently discourages media operators from creating new programs or providing efficient services. Therefore, to
make the media industry more competitive, entry barriers should be lowered and an
environment that guarantees fair competition should be promoted.

Artificial regulation of media diversity in Korea may cause market inefficiency.
Therefore, government regulation should focus on policies to enable new entrants to
access the market, namely competition policy. The issues of ownership and entry
into the media market should be discussed in the context of creating a fair and
competitive environment, rather than serving public interest obligations.
Furthermore, fair competition should be a major policy objective of the media
industry. Clearly, this argument is totally different from that of entry regulation
based on the public interest or of the balanced development of media sources.

The major limitation of this study is addressing media ownership questions,
regardless of their complexity, in purely economic terms. This study focused on
analyzing diversity within media markets using only the Herfindahl-Hirschman
Index (HHI), which is traditionally used in anti-trust analysis. Such an approach
may not fully capture what diversity means. HHI treats competitive conditions, in
which small atomistic channels are evenly distributed, as an ideal situation.
Furthermore, HHI requires a well-defined market. In our case, we presumed that a
tier was a market. Thus, this approach may not be informative about quality
differences between channels.

In closing, technology is continuously improving. New technologies compete
with previously developed ones, resulting in the evolution of both, with one of them
chosen by consumers in a fair, competitive market. The authorities should therefore
focus on promoting technological innovation, encourage market participants to
compete with each other in a fair way, and be committed to creating positive market
conditions where consumers can act reasonably.
REFERENCES


Schurz Communications v. Federal Communications Commission, 982 F. 2d 1043 (7th Cir. 1992).


< APPENDIX >

Table A1. Classification of service types based on programming content.

<table>
<thead>
<tr>
<th>Service type</th>
<th>Number of services</th>
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<tbody>
<tr>
<td>Movie</td>
<td>16</td>
</tr>
<tr>
<td>Drama</td>
<td>14</td>
</tr>
<tr>
<td>Family/documentary</td>
<td>11</td>
</tr>
<tr>
<td>Financial news</td>
<td>9</td>
</tr>
<tr>
<td>Health</td>
<td>2</td>
</tr>
<tr>
<td>Leisure/travel</td>
<td>3</td>
</tr>
<tr>
<td>General entertainment</td>
<td>2</td>
</tr>
<tr>
<td>Fashion/beauty</td>
<td>3</td>
</tr>
<tr>
<td>Checker game/Fishing</td>
<td>3</td>
</tr>
<tr>
<td>News</td>
<td>2</td>
</tr>
<tr>
<td>Educational</td>
<td>6</td>
</tr>
<tr>
<td>Public information</td>
<td>3</td>
</tr>
<tr>
<td>Religious</td>
<td>5</td>
</tr>
<tr>
<td>Sports</td>
<td>6</td>
</tr>
<tr>
<td>Music</td>
<td>5</td>
</tr>
<tr>
<td>Comedy/entertainment</td>
<td>6</td>
</tr>
<tr>
<td>Event information</td>
<td>2</td>
</tr>
<tr>
<td>Baby care</td>
<td>1</td>
</tr>
<tr>
<td>Rural</td>
<td>1</td>
</tr>
<tr>
<td>Cartoon</td>
<td>6</td>
</tr>
<tr>
<td>Shopping</td>
<td>5</td>
</tr>
<tr>
<td>Game</td>
<td>3</td>
</tr>
<tr>
<td>Government/congressional</td>
<td>5</td>
</tr>
<tr>
<td>Adult entertainment</td>
<td>4</td>
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<tr>
<td>Regional</td>
<td>1</td>
</tr>
<tr>
<td>Terrestrial broadcasting channel</td>
<td>20</td>
</tr>
<tr>
<td>(including national, local, and foreign channels)</td>
<td></td>
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</table>