

## **CHAPTER I**

### **INTRODUCTION**

#### **1.1. Background**

Indonesia's Business Software Alliance (BSA 2009) recently reported that the country's software industry is seeing increased losses in income every year due to piracy. BSA estimates that the industry suffered a total loss of \$550 million in 2008, up 33 percent from the loss of \$441 million in 2007.

Indonesia has one of the highest rates of software piracy. In 2004, the country was ranked third out of 100 countries in terms of pirated product usage, with a rate of 87 percent. It has since been able to lower the rate of pirated product usage in the following years. It ranked fifth in 2005 and then eighth in 2006 with a rate of 85 percent. In 2007, the rate declined further to 84 percent, placing the country in twelfth (BSA 2009).

Getting a handle on what drives a consumer to choose a fake, illegal product is a complex job. Motives vary widely, from price and easy access to social acceptability and a perception that a counterfeit purchase is a game, which falls outside the law and to which there are no consequences. And, consumers include

weak government commitment to fighting and prosecuting counterfeiting among their motives – or excuses – to look the other way.

Developments in, and availability of, new production technologies which have reduced the cost and time necessary to make illegal copies of goods have played a part in this growth. This has contributed to growth in markets for counterfeit goods as the amount and range of products create increased profits for those involved in this activity (Savona and Mignone, 2004). In addition, increasing consumer access to the internet – especially through mid-band and broadband services – has enabled new methods of distribution for counterfeit goods through online auction sites and via peer-to-peer systems. These digital copies are commonly referred to as “pirated” goods whether in physical form (CD, DVD) or electronic in the case of “file sharing” or direct downloads.

In this research the focus is on the demand side of the marketplace, i.e. the consumer. The researcher wishes to investigate about consumers’ ethics towards piracy and examine factors that motivate them to purchase pirated DVDs and CDs.

Only when consumers appreciate the full repercussions of their counterfeit purchase can they be expected to stop the practice. Only when governments fully understand the factors that drive their constituencies toward illegal activity can they institute programmes to educate and protect consumers – and society – from the dangers of counterfeiting and piracy.

## 1.2. Problem Identification

In the West, software piracy is commonly defined as legal, moral or ethical problem. Data used in previous research on piracy mainly came from student samples in the USA, where software copyright law has been shown in a very obvious way for a long time. This influence is especially evident in the generous protection that is given to software developers against software piracy. This is one example of the general importance on protecting individual and personal interests that characterizes Western society. This personalistic, individualistic emphasis may be responsible for Western researchers' attention to "moral-rights" doctrines and ethical decision-making processes when examining software piracy. It is highly questionable whether these approaches are appropriate in Asian society.

Swinyard et al. (1990) suggested that Asians have a more casual attitude toward software piracy than Americans. Asians tend to be more accepting of piracy. They are more likely to copy software, buy illegally copied software, and less likely to criticize those who do so. Should one assume that this more accepting attitude can be attributed to higher or lower levels of the same antecedents that have been examined in the Western context? Given the many, well-documented differences between Western and Eastern cultures such an assumption would seem to be simplistic. Westerners tend to view morality in absolute terms based on principles of right and wrong that are not considered to be highly dependent upon the situation. For Asians,

“good” and “bad” are the social evaluations, rather than objectively defined cognitive objects. One would be very surprised if the same factors that produce software piracy in the USA operated in the same way, and with the same effect, in Asia. The problem gains importance when one considers that Asia is a “black spot” with respect to piracy, accounting for millions of lost revenue dollars per year (BSA, 2009).

So as Swinyard states that Asians have more casual attitude toward piracy and these attitudes toward piracy are rooted in cultural that emphasize sharing creative work. It leads us to the following research question:

Do relativism perception, moral equity, attitude towards the act and self-reported behavior affect individual's willingness to engage in software and CD piracy?

### **1.3. Problem Areas**

The aim of this research is to evaluate the influence of consumer ethics and consumers' piracy attitudes on piracy behaviors in Indonesia.

Managers and researchers are still not certain of the complete impact of piracy, because there is no definite worldwide estimate, however companies are already losing billions of dollars every year due to piracy. Therefore this research will analyze until what point does consumers' ethics affect piracy.

The respondents of this research are people from any demographics background living in Daerah Istimewa Yogyakarta and who are willing to fill in the questionnaires. The research questionnaires are distributed only in Daerah Istimewa Yogyakarta.

#### **1.4. Operational Definition**

According to the Business Software Alliance Software (BSA 2009), piracy is the unauthorized copying or distribution of copyrighted software. This can be done by copying, downloading, sharing, selling, or installing multiple copies onto personal or work computers. When you purchase software, you are actually purchasing a license to use it, not the actual software. The license is what tells you how many times you can install the software, therefore it's important to read and understand it. If you make more copies of the software than the license permits, you are pirating and thus breaking the law. Whether you are casually making a few copies for friends, loaning CDs, downloading or distributing pirated software from the Internet, or buying a single software program and then installing it on multiple computers, you are committing copyright infringement—this is software piracy.

### **1.5. Research Objective**

The aim of this research is to evaluate the influence of consumer ethics and consumers' piracy attitudes on piracy behaviors in Indonesia.

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### **1.6. Benefits of the Study**

In this section it will be analyzed the benefits of this study in both academic and managerial area.

1. Academic: This research will help to give a better understanding about how consumer ethics affects consumers' piracy behavior. The result of this study will give some new contributions to the literature of consumer ethics research and for future research direction.
2. Managerial: From a managerial perspective it is important for those with authority to focus on motivating consumers to purchase original items, however this cannot be done if managers do not know which consumer is most likely to engage in piracy. Therefore this research will give managers a clearer image of the profile of those consumers that have a stronger tendency to engage in piracy.

## **1.7. Writing Structure**

The structure of this study is divided into five chapters, which are as follows:

### **CHAPTER I: INTRODUCTION**

In the Introduction the background of the research will be described, along with problem definition, other definitions, research objectives, benefits of the study, and writing structure.

### **CHAPTER II: THEORETICAL FOUNDATION & HYPOTHESES DEVELOPMENT**

This chapter describes the theoretical background relevant to this research with the objective of giving an explanation about the various theories of ethics in general, the development of morality and other theories (e.g. Theory of Planned Behavior; Theory of Reasoned Action) and a brief background in other studies made on piracy and consumer ethics.

### **CHAPTER III: RESEARCH DESIGN**

The research design chapter will explain about the method and procedure of data collection, measurement and how the data analysis will be carried out.

### **CHAPTER IV: DATA ANALYSIS**

In this chapter, the analysis of the data collected from the questionnaires will be described.

## **CHAPTER V: CONCLUSION AND MANAGERIAL IMPLICATIONS**

Finally a conclusion from the data that was analyzed will be given.

Also in this session the researcher will indicate the theoretical and practical implications of the study and see if the work suggests any interesting further avenues for investigation and if there are ways in which this study could be improved by future researcher.

