

## **CHAPTER II**

### **THEORETICAL BACKGROUND AND HYPOTHESIS DEVELOPMENT**

#### **2.1 Introduction**

This chapter has as objective to show some theoretical background in relation to Ethics, Moral, Relativism, Attitude, and other theories. Here also the hypothesis development will be exposed.

#### **2.2. Definition of Ethics**

Today there is widespread concern about ethics in public and private life extending to many areas — politics, education, health, as well as business. Indeed, the current period may be called the “ethics era”. The problem however is that there is too few literature/studies on consumers' ethical behavior.

When looking on Oxford dictionary, ethics is defined as "moral principles that govern a person's or group's behavior" or "the moral correctness of specified conduct".

### **2.3. Consumer Ethics**

Dodge et al. (1996) define consumer ethics as the “rightness as opposed to the wrongness of certain actions on the part of the buyer or potential buyer in consumer situations,” Vitell (2003) defines it as “the moral principles and standards that guide behavior of individuals as they obtain, use, and dispose of goods and services.” A number of researchers point out that, although there is a large body of empirical research concerning ethics in the market place, most of them have focused on the seller side. Marketing is an exchange process between buyers and sellers, and unethical behaviors can be exhibited by both parties. Therefore, ignoring consumers may result in an incomplete understanding of that process (Vitell, 2003) and in the development of ineffective marketing strategies. As a result, in the last decade, consumer ethics has emerged as an important area for research.

Vitell (2003) reviews the major research studies involving consumer behavior that have appeared since 1990. Among the first consumer ethics research in this period, the study of Muncy and Vitell should be mentioned. By developing a consumer ethics scale, these authors examined the extent to which consumers believe that certain questionable behaviors are ethical or unethical and found that consumers’ ethical beliefs that differentiate their behaviors has four dimensions: (1) actively benefiting from illegal activities (e.g., changing price labels in a supermarket), (2) passively benefiting (e.g., getting too much change and not saying anything), (3) actively benefiting from deceptive (questionable) practices (e.g., using an expired

coupon for merchandise), and (4) no harm/no foul (e.g., copying and using computer software that the consumer did not buy) (Muncy and Vitell, 1992). Their findings revealed that actions in the first dimension are initiated by consumers, most of whom perceive that these actions are illegal. The second dimension involves actions where consumers passively benefit from sellers' mistake. The third dimension is also initiated by the consumers, however these actions are not perceived to be illegal. Yet, they are still morally questionable. Study findings indicated consumers believe that it is more unethical to actively benefit from an illegal activity than to passively benefit. Finally, the fourth dimension involves actions that most consumers perceive as not even being unethical at all. Most of these actions involve the copying of intellectual property such as software, tapes or movies (Vitell, 2003).

### **2.3.1. Factors that influence consumers' ethical behaviors**

Many individual factors influence consumers' ethical behaviors.

Overall, Vitell (2003) points out that less Machiavellian, less relativistic, and more idealistic consumers were found to be more ethical. Numerous other variables have also been examined; for instance, Rallapalli et al. (1994) examined the relationship between the consumer ethics scale and a number of personality traits, including high propensity to take risks, high needs for autonomy, innovation, and aggression. Findings showed that consumers with a high need to follow socially desirable behavior tended to be more ethical, as those with strong problem-solving coping styles.

As stated by Vitell (2003), the findings of these studies support the relatively consistent factor structure of the Muncy–Vitell scale for consumer ethics. Consumer ethical judgments seem to be determined by three, instead of four, focal issues: (1) whether or not the consumer actively sought an advantage or was basically passive, (2) whether or not the activity might be perceived as illegal, and (3) whether or not there is any perceived harm to the seller (Vitell, 2003). In addition, “the ‘actively benefiting from an illegal activity’ items from the Muncy–Vitell scale are almost universally seen as being both illegal and unethical” (Vitell, 2003, p. 40). Vitell (2003) suggests conducting additional studies using consumers from other cultures which are not tested yet.

Since software piracy is illegal, the decision to commit illegal copying or use pirated software will pose a certain ethical dilemma to the consumers. Thus, moral issues should be considered in such unethical behavior research.

### **2.3.2. The Ethical Decision-Making Process**

The ethical decision-making process is often treated as a black box. Previous ethical decision-making models simply emphasized the influences of individual and organizational factors on ethical decision-making and ignored the primal characteristics of moral issues. If one wishes to make normative prescriptions about how individuals should resolve their ethical dilemmas, a useful starting point is to attempt to understand how these individuals actually arrive at their ethical judgments.

The moral philosophy perspective can provide more formal systematic frameworks for assessing the ethical appropriateness of an individual behavior.

As moral intensity among decision-makers varies, such variations exert different effects on the process of ethical decision-making. Moral intensity is a multidimensional construct, which captures the extent of the issue-contingent nature of ethical decisions.

Moreover, it is an important factor for an individual to take account of what should be done when confronting an ethical dilemma. An individual's cognitive judgment is the degree to which an individual considers a particular behavior to be morally agreeable (Reidenbach and Robin, 1990). Many empirical studies proposed that judgment concerning an action and the intentions to perform are related. Therefore, the moral judgment of an individual affects his/her perception as to why certain actions are perceived as morally just or preferred.

Though some previous studies included moral issues in the studies of software piracy, little is known about the joint moderating effect of moral intensity and moral judgment on the consumer's use intention of pirated software based on the TPB (Theory of Planned Behavior) model. A better understanding of the antecedents of TPB (i.e., an individual's attitude, subjective norms, and perceived behavioral control) in the decision to use pirated software and CDs will aid in the development of mechanisms to reduce this illegal practice. The purpose of this study is to understand the consumer's use intention of pirated software based on the TPB model proposed by Ajzen (1991). In addition, moral intensity and moral judgment are

adopted as a joint moderator to examine their joint influence on the proposed research framework. This established model could provide not only more insightful explanations of the consumer's use intention of pirated software and CDs, but also some managerial suggestions for Indonesian government authorities concerned and the related software, music and cinema industries devoted to fighting piracy.

## **2.4. Morality**

C. S. Lewis explains morality as being composed of three layers: relationships between man and man, the motivations and attitudes of the man himself, and contrasting world views.

### **2.4.1. Cognitive Moral Development**

Monga (2007, p. 179) states that “in order to act ethically an individual is expected to have a well-developed moral imagination and moral reasoning,” and adds that literature on ethical reasoning supports that there is a positive relationship between moral reasoning and ethical behavior. Moral reasoning can be defined as “the cognitive processes people use in making ethical decisions” (Monga, 2007). In this respect, Kohlberg's model of cognitive moral development (CMD) has been the most widely recognized theory of moral reasoning focusing mainly on how decisions are made regarding what course of action is morally correct (Monga, 2007).

According to Kohlberg, there are three broad levels of CMD which progress from childhood until adolescence. These levels are labeled as pre-conventional,

conventional, and post-conventional. Each level contains two sequential stages and, in each of those stages, moral reasoning becomes more complex.

At the pre-conventional level (stages 1 and 2), moral reasoning is founded on the maximization of self-gain and minimization of personal loss (Monga, 2007) and is based on punishments and rewards. At the conventional level (stages 3 and 4), what is morally right or wrong depends on the expectations of others. Thus, moral reasoning is based on norms and regulations of the society. At the post-conventional level (stages 6 and 7), which represents the highest level of moral development, people follow their self-chosen ethical principles and consider the welfare of everyone. At this level, in order to resolve moral dilemmas, individuals use universal concepts of rights and justice. According to Kohlberg, while young children up to ages of 12 years are in stages 1 and 2, most adults are in conventional stages 3 and 4 and yet “only 20–25% of the adult population ever reaches the last two post-conventional stages” (Ishida, 2006, p. 65).

Kohlberg’s three levels of CMD describe the relationships between the self and society’s rules and expectations. While self-interest is the major concern at the pre-conventional level, the self is identified based on the expectations of others at the conventional level. Nevertheless, at the post-conventional level, “person differentiates the self from the rules and expectations of others”.

CMD is found to be significantly related to individual’s ethical behavior. Although there have been a few exceptions, literature generally provides empirical evidence for a positive relationship between CMD or ethical judgment and ethical

decision-making. Thus, as stated by Monga (2007), findings suggest that individuals with higher level of moral reasoning scores are more likely to act ethically than individuals with lower moral reasoning scores.

Although most of the studies examining moral development have focused on managers and business students, there have been a few studies concentrated on consumers' ethical behavior. However, empirical findings on the relationship between moral development and consumers' ethical behavior are not consistent; for instance, Tan (2002) investigated the influence of consumers' moral intensity, perceived risks, and moral judgment on their purchase intention of pirated software. Results revealed that consumers' purchase intention is influenced by CMD. Consumers' intention to illegally downloading music files, which has been regarded as a problem of consumer ethics by researchers, is not significantly related with moral reasoning ability. However, authors emphasize that this finding may be observed due to special characteristics of the product chosen for the study. Music resources are seen as public goods so that unauthorized downloading music may be perceived as not so unethical.

## **2.5. Relativism and Idealism**

In the Hunt – Vitell model (1993) an individual's moral philosophy is the key factor of differences in ethical judgments. These moral philosophies are deontological and teleological in nature. While the deontological evaluation focuses on the specific actions or behaviors of the individual, the teleological evaluation stresses the



consequences of the action or behavior. Forsyth (1992) conceptualized two evaluative dimensions that have long been used to classify an individual's ethical and moral judgments: idealism and relativism. Idealism refers to the degree to which an individual believes that the right decision can be made in an ethically questionable situation. This is essentially the deontological perspective that embodies concern for others' welfare. Idealistic individuals believe that there is a morally correct alternative that will not harm others. Less idealistic individuals may make decisions irrespective of the impact on others. Relativism, on the other hand, refers to the rejection of universal rules in making ethical judgments and focuses on the social consequences of behavior (i.e. teleological perspective). High relativists evaluate the current situation and use this as the basis for making a judgment. Low relativists believe that standard rules can be applied regardless of the issue at hand.

Many empirical studies have used Forsyth's (1992) ethical ideology to explore the ethics of various groups. Some of that research has used personal moral philosophies to compare the ethical beliefs of consumers from two or more countries, such as the U.S. and Egypt (Al-Khatib et al., 1997). Other research has used ethical ideology to examine the ethical beliefs of consumers from within one country or culture, including Egypt (Al-Khatib et al., 1995). These studies concluded that idealism is associated with greater ethicality whereas relativism is associated with lower ethicality.

Erffmeyer et al. (1999) found that Japanese consumers who were more idealistic tended to think that ethically questionable consumer situations were more

wrong, whereas relativistic consumers were more likely to perceive these situations as less wrong. Similarly, Rawwas et al. (1995) found that Hong Kong consumers who score high on idealism were more likely to reject questionable practices compared to Northern Irish consumers who scored high on relativism.

Although the relations between an individual's moral philosophy and ethical beliefs have been supported in prior research, these hypotheses are explicitly formulated because these are incorporated in our research model

## **2.6. Attitudes**

Consumer attitudes are a composite of a consumer's (1) beliefs about, (2) feelings about, (3) and behavioral intentions toward some object--within the context of marketing, usually a brand or retail store. These components are viewed together since they are highly interdependent and together represent forces that influence how the consumer will react to the object. Attitude is a fundamental contributor to how persons deal with the world around them.

In simple terms attitude refers to what a person feels or believes about something. Additionally, attitude may be reflected in how an individual acts based on his or her beliefs. Once formed, attitudes can be very difficult to change. Thus, if a consumer has a negative attitude toward a particular issue it will take considerable effort to change what they believe to be true.

## **2.7. The Theory of Planned Behavior**

The theory of planned behavior (TPB) is derived from the theory of reasoned action (TRA), which assumes that most individual behaviors are reasonably under their volitional control.

TRA suggests that behavioral intention is determined by attitude and subjective norms. Ajzen (1991) defined attitude as “the psychological emotion and the positive or negative evaluation which was caused as an individual engages in a certain behavior.” In other words, attitude means the belief and the evaluation of an outcome after engaging in a certain behavior. Belief comes into being when an individual realizes that adopting a certain behavior will result in a certain outcome and evaluation originating from these outcomes. Subjective norms mean that an individual is affected by social pressure and it further influences them on whether or not to engage in this behavior.

Social pressure often derives from influential groups, such as parents, teachers, colleagues, and religious groups. Subjective norms could be measured from the product of two dimensions—normative belief and motivation to comply. Normative belief refers to an individual affected by influencing groups or objects when considering if one should adopt a certain behavior or not. Motivation to comply is the degree of intention that an individual will comply with these influencing groups or objects. This means that if we want to change or enforce an individual’s subjective norms toward behavior, then we should change or enforce his/her normative belief

and motivation to comply. In other words, the key to changing one's behavior could be achieved by modifying the latent cognition structure.

While attitude and peer norms have been shown to be factors in illegal software and CDs copying behavior, some other researchers found that TRA fails to describe the ethical decision-making process adequately. Ajzen (1991) argued that TRA is simply applied to individual rational behavior; its explanatory power is relatively finite to those behaviors needing techniques or cooperation with others. In fact, there are many behaviors beyond the control of an individual's volition. In other words, the control degree of an individual's intention is affected by internal psychology factors and external environment factors, such as lack of time or opportunity. This means that individuals make a decision not simply under their volitional control. Therefore, Ajzen (1991) extended TRA to TPB by adding an uncertain immediately determinant—perceived behavioral control to the TRA model in order to raise the explanatory power of TRA.

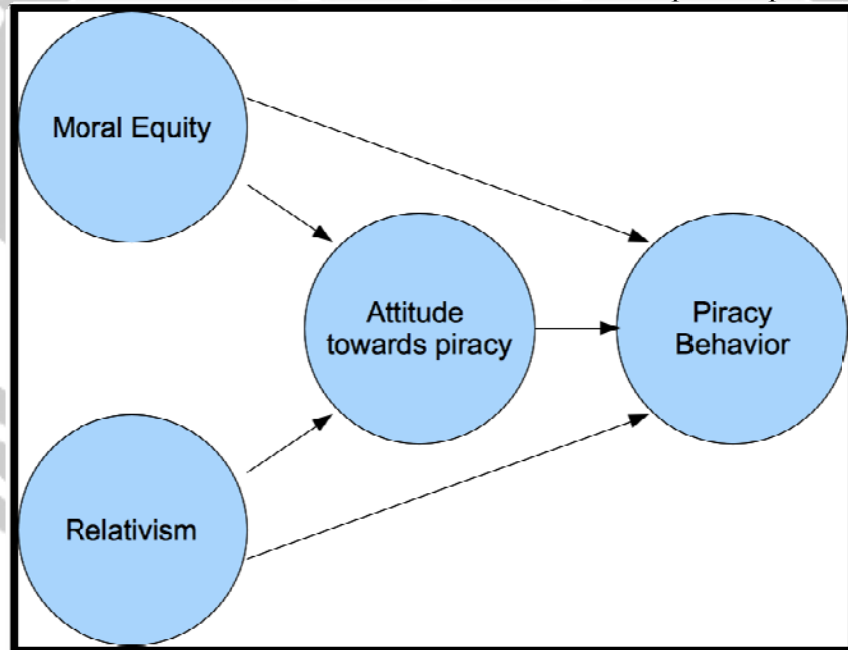
## **2.8. Perceived Behavioral Control**

Perceived behavioral control refers to the individual's possible belief of difficulty in completing a certain behavior. Control belief is the cognition of possessing a certain resource or opportunity degree of adopting a certain behavior. Perceived power is the cognition of the degree of these resources and opportunities which will affect behavior. The more resources and opportunities an individual possesses, the less difficulty accrues, so that perceived behavioral control will be

stronger. Perceived behavioral control could reflect an individual's actual control ability on resources and opportunities, such that it impacts an individual's behavioral intention and actual behavior. Thus, TPB is adopted as the theoretical research model to explain the consumer's use intention of pirated software and CDs in this study. In addition, the potential joint moderating effect of moral intensity and moral judgment on the consumer's use intention of pirated software is also included in the framework. The research framework of this study is depicted in Figure 2.1.

*Figure 2.1*

Research framework of consumer's use intention of pirated product.



Source: Adapted from Shoham et al *"(Un)ethical consumer behavior: Robin Hoods or plain hoods?"* (2008, p. 204)

## 2.9. Hypotheses Development

As this research is a replication of the one made by Shoham (2008) the research hypotheses used here are the same ones used by the author. According to the author Ethics/morals are three-dimensional: moral equity, relativism, and contractualism (applicable mostly to managerial decision-making). Moral equity is dominated by the notions of fairness and justice and is the strongest predictor of behavioral intentions. The relativist dimension, recognizing the importance of cultural/social norms in defining the limits of ethical behavior, is the second strongest predictor of behavioral intentions in the study.

The Hunt-Vitell model (Vitell, 2001) stresses the importance of idealism and relativism as sources of ethical discrepancies between individuals. Idealism focuses on the intrinsic rightness of behavior as the determinant of which behavior is to be followed. Relativism, the rejection of universal moral principles, focuses on the social consequences of behavior. Forsyth used both idealism and relativism to classify people into four different ethical types. "Situationists" (high on both idealism and relativism) reject moral rules and assess behavior on the basis of its consequences in the specific situation. These consumers would use deception if it led to a better result. "Absolutists" (high on idealism, low on relativism) believe their actions are moral if the positive consequences result from conformity to moral absolutes. "Exceptionists" (low on both idealism and relativism) believe that conformity to moral rules is desirable, although exceptions are permissible. "Subjectivists" (low on idealism, high

on relativism) base their moral judgment on personal feelings and neglect moral rules (Monga, 2005) .

“In sum, given their TORA underpinnings and their impact on behavioral intentions and actual behavior, moral equity and relativism are posited to impact behavior”(Shohan, 2008). Bringing us to the following hypotheses:

**H1. The higher the individuals’ moral equity and relativism perceptions, the less they engage in software piracy and purchases of illegal copies of music CDs.**

The author's findings on H1 was that: “Higher moral equity and relativism-based perceptions were hypothesized to reduce software piracy and purchases of illegal copies of music CDs (H1). The data partially supported H1 which was substantiated for two of the four relationships. Moral equity had a negative and significant impact on purchases of illegal copies of music CDs and relativism-based perceptions had a similar impact on illegally copying software.” This same test will be run in an Indonesian setting.

According to the Theory of planned behavior attitudes develop reasonably from the beliefs people hold about the object of the attitude. (Ajzen, 1991) Generally speaking, we form beliefs about an object by associating it with certain attributes, i.e., with other objects, characteristics, or events. In the case of attitudes toward a behavior, each belief links the behavior to a certain outcome, or to some other attribute such as the cost incurred by performing the behavior. Since the attributes that come to be linked to the behavior are already valued positively or negatively, we

automatically and simultaneously acquire an attitude toward the behavior. In this fashion, we learn to favor behaviors we believe have largely desirable consequences and we form unfavorable attitudes toward behaviors we associate with mostly undesirable consequences. Specifically, the outcome's subjective value contributes to the attitude in direct proportion to the strength of the belief.

According to Shoham (2008) “Moral equity and relativism should affect attitudes toward the act of unethical behavior. (...) ethics should be consistent with attitude toward the act and with behavior. Furthermore, recent articles have shown the powerful impact of attitude ambivalence, which arises when individuals have predominantly positive/negative attitudes concurrently. Ambivalence is a bothersome state and can powerfully affect attitudinal changes. If one maintains positive moral perceptions but views illegal copying of software favorably, attitude ambivalence will result, requiring a change in one of the two attitudinal components.” Therefore:

**H2. The higher the individuals’ moral equity and relativism-based attitudes, the stronger their negative attitudes toward acting unethically in the context of software piracy and purchases of illegal music CDs.**

From the above hypotheses the author's findings was that “The data supported H2 for both relationships. The impact of both ethical components on attitude toward the act was negative and significant.”

Another thing to take into consideration is the individuals' forgiveness toward the act of piracy – in the TRA this would go in the category of consistency. If a person is less forgiving toward piracy, then consequently this person has a higher



propensity of engaging less in the act of piracy. Bringing us to the third and last hypotheses.

**H3. The less forgiving consumers' attitudes toward piracy, the lesser their use of pirated software and purchase of illegal copies of music CDs.**

And finally from this last hypotheses the data collected by the author supported the hypotheses for both Software piracy and illegal purchase of CDs and DVDs.

Therefore this research has three hypotheses that will hopefully bring us to a better knowledge about a individual's propensity to engage in software, CDs and DVDs piracy that were previously used by Shoham (2008) and will be put to use in an Indonesian setting.