

INTI INTERNATIONAL UNIVERSITY

MASTER OF BUSINESS ADMINISTRATION

An investigation on Consumer Buying Behavior of Piracy Software in
Kuala Lumpur.

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Abstract

Software piracy is becoming an increasingly critical problem around the world. Compared to software industry, the speed of development for pirating software is an increasing problem. At the meantime, the software piracy rate in Malaysia is relatively higher as compared to other countries in Asia Pacific such as Singapore and Hong Kong. Studies specifically on Malaysia software piracy problem is very limited. And hence, the problem of software piracy in Malaysia is worth to be studied and worked on.

This study focuses on the factors that influence Malaysians' intention to purchase pirate software and is using the Theory of Planned Behavior (TPB) as a theoretical framework to develop the hypothesis. The TPB model uses three different factors to examine the intention to indulge in software piracy. These factors were attitude, perceived behavioral control and subjective norms. Two additional factors from other researchers were included in the model are past piracy behavior and moral obligation. From these five factors, resulted in five hypothesis used in this study.

In order to analyze the factors, quantitative method was used as the methodology to investigate the factors influencing Malaysians' intention to purchase pirate software. The respondents used in this study are working adults who are above 18 years of age. The sample used in this study is 270. Descriptive analysis is used to analyze the demographic information of the participants, and it is followed by reliability and validity test to analyze the factors. The result of this study indicated that the entire hypotheses in the study are supported. Using these results, a better understanding of why individuals in Malaysia have the intention to purchase pirate software was obtained. Finally recommendations were made to help combat software piracy in Malaysia.

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Xu Mengxue

Declaration

"I hereby declare that this research project is of my own effort except for those summaries and information of which the resources are clearly specified"

Xu Mengxue

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List of Abbreviations

BSA: Business Software Alliance

AEC: Asean Economic Community

IIPA: International Intellectual Property Alliance

SPSS: Statistical Package for Social Science

PLS: Partial Least Squares

AVE: Average Variable Extracted

MITs: Micro Instrumentation Telemetry

MSF: National Science Foundation

DoD: DrinkOrDie

TPB: Theory of Planned Action

TRA: Theory of Reasoned Action

AT: Attitude

SN: Subjective Norms

MO: Moral Obligation

PBC: Perceived Behavioral Control

PPB: Past Piracy Behavior

IN: Intention

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Chapter 1 Introduction

1.1 Background of the Study

1.1.1 Piracy Software Industry in the World

With the rapidly development of the world economic environment, the technology involved in producing has also increased tremendously. At the same time, the illegal piracy market is also developing just as fast during this period.

Timothy Paul Cronan (2008) stated that the digital piracy industry has been grown really fast since the 1990s. One typically example of digital piracy in 1990s is the piracy of Star Wars in 1999, when the movie was still showing in America, the Asian marketplace has already shown developed lots of pirated copies. This event is an important signal of digital pirated market development in the underground market.

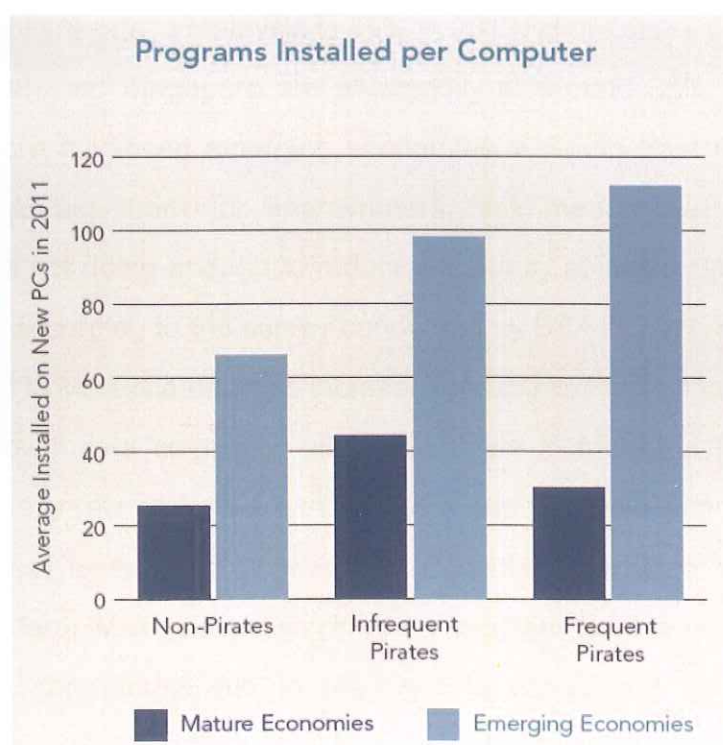
Business Software Alliance (BSA) annual report in 2011 provided compelling evidence that software piracy continues to be a global problem. Almost a half portion of the world's personal computer users admit that they have used piracy software. In total overall global market of US\$53 billion were lost revenues. Although the overall global piracy rate remains relatively stable, due to the increase portion of software users, the influence of piracy software industry in the world are increasingly expanding and this continues to be a major drain on the global economy.

The software industry is different from the other physical industry where it is completely rely on technology, hence, the software products are easy to be pirated. Furthermore, according to the BSA annual report (2011), the commercial value of piracy software industry has climbed to US\$63.4 billion in 2011, compared to the past years where the piracy software market is only an

emerging market with US\$31.9 billion commercial value in 2009. There was an unbelievable increase in 2010, where the piracy software market increased to US\$58.8 billion in 2010. From these data, we can see that the trend of piracy software market is growing obviously. This is an emerging economics which has enormous growth in recent years, and it has already been the most serious threat to the PC software industry.

On the basis of the survey of BSA in 2011, the portion of piracy software are mostly distribute in emerging economies, which means that the developing countries has the most users of unlicensed software compared with the developed countries.

Figure 1.1 Programs Installed Rate of Mature and Emerging Economies



Based on Figure 1.1, it is obvious that emerging economic environment provides more opportunities for piracy software market to grow, and the percentage of piracy rate in emerging economies environment is much higher than mature

economics environment. Today's software industry with the development in emerging economies, the piracy software industry can be the most serious threat in the shadow that can directly influence the performance of the software industry in the whole world, especially in the emerging economic environment.

1.1.2 Piracy Software Industry in Malaysia

Malaysia is located in a strategic location where it lies in the center of the heart of South East Asia. The special location enable Malaysia to find more business opportunities. Due to the preponderant location, Malaysia has become one of the fastest emerging and growing economies in South East Asia. Under this circumstance, the piracy software rate in Malaysia is also high.

According to the data collected by Asean Economic Community (AEC) in 2012, the piracy software rate in Malaysia is 55% in 2012, at the same time, the piracy rates in Taiwan and Singapore are all steadily at around 35%. Compared to these two more advanced emerging economies in South East Asia, Malaysia has a relative big room for improvement, this means that the Malaysia government is not doing enough to reduce the piracy software rate in Malaysia. Furthermore, according to the survey conducted by BSA in 2011, the unlicensed software used in Malaysia has also increased to US\$657 million in that year, and has 8.4% growth rate compared with piracy rate in Malaysia in 2010. Even though the piracy rate of software in Malaysia has improved from 58% in 2010, but the value of losses has increased to US\$453. Compared to Asia Pacific average standard, Malaysia software piracy problem is at a relatively serious level. Hence, the piracy rate in Malaysia is considered as an emerging economies with relatively high level of piracy and is an increasing piracy rate country.

According to the copyright protection and enforcement provided by International Intellectual Property Alliance (IIPA) (2014), the Malaysian government enforced

their laws from three different aspects which is enforcement on the past politics, legislation to provide legal protection to software industry and costly to consider about the market access. All these strategies are made due to the continuous increase of piracy rate in Malaysia. The government's action indicates that the emergency issue of piracy software problem in Malaysia is high.

In addition, as the capital of Malaysia, Kuala Lumpur is the center of business economies, and piracy software market in Kuala Lumpur is also the center of the entire piracy software industry in Malaysia. Therefore, the piracy software industry in Kuala Lumpur can be the most suitable place to do investigation on the piracy software industry in Malaysia.

1.2 Problem Statement

As a global community which concentrate on software license protection, BSA is always devoted to encourage their members to drive suitable and effective strategies to fight against piracy behavior. According to the survey report of BSA in 2013, the piracy software rate in the whole of Asian Pacific area has increased by 2% compared with 2011. At the same time, Malaysia has to keep the level of piracy rate low but there are no obvious changes during these two years. This means that the piracy problem in Malaysia is still a high threat for us to pay attention to and finding strategies to restrain the piracy problem is the most important thing.

On the other hand, the software industry has shown to be an important industry for technology which contribute to a large proportion of the country's revenue. Based on the data shown by ZDNET (2012) and one of the most famous business technology news website published by CBS Interactive, "enterprise IT spending in Malaysia is predicted to reach 31.5 billion ringgit (US\$10 billion) in

2012, up 6.1 percent over 2011.” But the real performance is in the contrary. Peter Sondergaard (2012) who is the senior vice president and global head of research firms said that even though the forecasting did not been finished during last year mainly due to the depressed economic environment. The IT enterprises will continuously to invest in technology which means that this area is going to have a bright future for at least in the next few years. From this developing trend of the IT industry, the software market is one of the relatively important component in Malaysia’s IT industry. In 2010, the software market was worth around US\$2.4 billion and expected to grow at a compound annual growth rate of 13% until 2015 (Sharma, 2011).

Because of the important role played by software market in Malaysia, the demand of software by Malaysians can be proved to be high. Therefore, Malaysia has the relatively well environment for software piracy industry to grow up, then the problem comes to the software market in Malaysians. The high piracy rate on software products is definitely make Malaysia software market get suffered seriously. Hence the software piracy problem is definitely need to be pay attention on in the future.

Vitell and Muncy (2005) stated that there are three factors that are being modified to add to the scale of consumer ethics. Downloading or buying counterfeit goods is one of these factors. This new modified theory reflects on the piracy behavior of customers which is becoming an emerging concern and threats to many industries (Budi Setiawan, 2013). According to past research, to design software protection strategies there is a need to analyze software piracy from the demand side. Surprisingly, there are a lot of research and investigation on piracy software problem being conducted by many developed countries which has low piracy rate. But for Malaysia which has high piracy rate on the piracy software industry is very limited (Budi Setiawan, 2013). So it is worth for me to do the research on this problem as I am trying my best to provide some

theoretic support the software industry in Malaysia as it can shed some light on the piracy issue.

The third reason for me to conduct this research is that the researchers want to have a deeper understand on why software piracy behavior occurs and what influences an individual's intent to pirate. Determining the factors that guide customers to purchase pirate software can provide pertinent information on how to reduce software piracy menace. By investigating local Malaysian customers' intention and their reasons to buy pirate software, it can provide more specific strategy to deal with this problem and ameliorate it.

While the problem of software piracy in Malaysia is rampant and it is worthwhile for me to do a research on it. Software piracy problem in Malaysia needs to have more theoretic supports and practical suggestions so that the piracy problem in Malaysia can be controlled to a more acceptable level.

1.3 Research Objectives

An overview objective of this research is to investigate the factors influencing the customer purchasing behavior on pirate software in Malaysia.

The specific research objectives are listed as following:

RO1: To investigate on the relationship between customers' intention and their purchasing behavior in Malaysia.

RO2: To examine on the relationship between attitude of customers and their purchasing intention in Malaysia.

RO3: To find out the relationship between subjective norms of customers and their purchasing intention in Malaysia.