# AN EXPLORATORY EXAMINATION OF CONSUMER INTELLECTUAL PROPERTY THEFT IN TRANSITIONAL ECONOMIES

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**Abstract**

The purpose of this study is to examine cultural antecedents of Intellectual Property Theft in transitional economies. Transitional countries, specifically those of Eastern Europe and to a lesser degree those of the former Soviet Union (i.e., the "stans") are a unique case due to the transition from a socialist/command to a capitalist economy. Thus, they represent a change from a lack or limited private property ownership, to a more capitalist system where both real and Intellectual private property ownership is both allowed and encouraged.

**Keywords:** cultural and historical antecedents, Intellectual property theft, music, transitional economies.

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## INTRODUCTION

Theft by consumers represents a huge social and financial externality to society. This has been true since the advent of commerce. However, what changed at the beginning of the 21st century was the ability of consumers to seriously endanger whole markets through the en masse theft of Intellectual property. One of the major concerns of companies that own Intellectual property is the lack of enforcement in foreign countries. "Although developed countries such as Japan, Taiwan and the Republic of Korea frequently draw fire from U.S. manufacturers over Intellectual property rights violations, recently, greater attention has been focused on emerging and transition economies because the rate of piracy is growing much more quickly there" (Shultz and Saporito, 1996, p.20). Intellectual property violation increases along with the expansion of market economies in Eastern Europe as different interpretations of the meaning of Intellectual property rights are influenced by cultural differences (Shultz and Saporito, 1996). The theft of Intellectual Property refers to activities of illegal object acquisition or stealing copyrighted objects.

Previous research has investigated Intellectual property rights (e.g. software piracy) and lost sales from a company's perspective, but little knowledge exists on Intellectual property theft from consumers' perspective with the focus on cultural variables, especially in transitional economies. By adapting an extended Fishbein Model to investigate the theft of Intellectual property in the context of transitional economies, we contribute to the gap in the literature and respond to calls "for the development of generalized models for information goods that are supranational and that transcend cultural barriers" (Bhattacharjee et al., 2003, p. 111).

## OVERVIEW OF RELEVENT THEORIES/MODELS

An Extended Fishbein Model (Johansson, 2006, p. 213) is adapted to examine the theft of Intellectual property in transitional economies. Social norms are examined with relevant cultural dimensions of Uncertainty Avoidance and Collectivism. Since the original model is specific to product choice, the model is adapted in this study to represent a broader choice set dealing with behavior in general. Specifically, preferences are hypothesized to be a function of relevant attitudes (i.e., attitude toward the music industry and ethics of copying music) and general beliefs about quality (i.e., relative quality of downloaded music). Situational factors include risk and ability to access all channels (i.e., ability of the individual to access and use the internet and risk of internet downloads).

## HYPOTHESES DEVELOPMENT

### Uncertainty Avoidance (UA)

Hofstede (2001, p. 161) defines Uncertainty Avoidance (UA) as "the extent to which the members of a culture feel threatened by uncertain or unknown situations". The U.S. scores typically low on UA whereas European and Asian countries are found at the top, in the middle and at the bottom of the list (Hofstede, 2001, p. 151).

Vitell et al. (1993) found that low UA cultures recognize ethical issues better than high UA cultures. Cohen et al. (1996) proposed the relationship between UA and morality beliefs of a business practices. Husted (2000) examined the relationship between UA and software piracy. High UA cultures are characterized as relying upon norms and rules, they value stability, avoid risks and fear anything unknown (Mockaitis, 2002; Usunier, 1996). For this reason, we expect countries with high UA to be less tolerant to Intellectual property theft as such behaviour violates norms and law. No deviation from accepted norms is tolerable. Thus, we hypothesize:

H1: Intellectual property theft will occur less in countries with high UA.

**Collectivism**

Collectivism underlines the importance of membership and reflects the extent to which the individuals get integrated into groups in a given society. "Collectivism pertains to societies in which people from birth onwards are integrated into strong, cohesive in-groups, which throughout people's lifetime continue to protect them in exchange for unquestioning loyalty" (Hofstede, 1991, p. 51).

The centrally planed economy system was based on collective ownership and overall social being, thus no emphasis was placed on private ownerships or private initiatives. Major focus was on group rights, people were used to share responsibilities for their actions and results of their creative works (Pranulis, 1996). Therefore, it is logical to predict that collectivist cultures would view Intellectual property as a group right more than an individual right. Thus, we hypothesize:

H2: Intellectual property theft will occur more in collectivist countries.

**Attitudes and Beliefs**

Successful artists and the music industry are often seen as rich and excessive in their profits and lifestyle. Many consumers feel that these artists have alternate means of income, such as through live concerts and merchandising, therefore the illegal downloading of a few songs will not financially hurt them (Levin, Dato-on and Rhee, 2004). With this belief, a consumer's perspective may be that piracy is a victimless crime (Chellappa and Shivendu, 2003). Thus, we hypothesize:

H3: Poorer Attitudes to the Music Industry will lead to higher levels of Intellectual property theft.

The social/ethical argument for illegal downloading of Intellectual property reflects on an individual's decision as to whether it is morally right or wrong to participate in this behavior (Gopal, et al., 2004; Taylor, 2004). Although free music downloads create ethical uncertainty,

many consumers do not consider morality issues when downloading free songs as they believe they promote the publicity of singers (Chiou et al., 2005). Thus, we hypothesize:

H4: Perceptions of downloading music as ethical will lead to higher levels of Intellectual property theft.

Common to several models of product choice is the idea that choice is immediately determined by perceived costs and benefits. The benefits may include product performance and quality (Kerin, Jain, and Howard, 1992; Zeithaml, 1988; Monroe, 1990). Contrary to economic models that assume the use of commodities, the store and channel choice literatures base much of the benefits of a product on the perceived quality. Thus not only price, or market value, but also relative output quality, have an effect on the decision. Thus, we hypothesize:

H5: Higher beliefs in the relative quality of music available for download will lead to higher levels of Intellectual property theft.

**Situational Factors/Constraints**

"Ability" to use the Internet is considered as skills that people have when they go surfing online and how effectively and efficiently people can utilize those skills to use the website (DiMaggio and Hargittai, 2001, Hargittai and Shafer, 2006). Harrison and Reiner (1982) found significant relationships between specific individual differences and computer skills. Thus, we hypothesize:

H6: Higher ability in using the internet will lead to higher levels of Intellectual property theft.

In addition to the product quality itself, perceived risk is referred to as the consumers' subjective expectation of a loss (Stone and Gronhaug, 1993). Perceived risk (e.g., financial and performance risk) is considered a sacrifice, or cost, which negatively influences perceived value and purchase intentions (Einwiller, 2003). In a similar vein, the higher the risk involved in buying

a product through a certain channel, the lower the intentions to use that channel. Thus, we hypothesize:

H7: Lower risk perceptions of using the internet will lead to higher levels of Intellectual property theft.

## METHOD

The Intellectual property theft that this study considered was theft of copyrighted recorded music. These unauthorized copies were created by burning CD's, copying tapes, and storing data files on a computer or MP3 player. We chose stealing recorded music as the object of the study for two reasons. First, a substantial portion of the population engaged in it. Second, people seem to be comfortable discussing their participation in illegal music acquisition, quite likely because of its widespread acceptability. For instance, in a survey of 2,306 adults, Harris Interactive (2003) found that three in four people agreed with the statement, "Downloading and then selling music is piracy and should be prohibited, but downloading for personal use is an innocent act and should not be prohibited."

### Sample and Measures

Four of the countries represent transitional economies at various levels (Slovenia, Serbia, Estonia and Lithuania). In addition, respondents from the UK were included as a baseline (Table 1). Personal interviews with 1275 university students in five countries who reported acquiring recorded music during the six months immediately prior to their interview provided the data for the study. Of these 1109 fully completed the survey resulting in an 87 percent effective response rate. This demographic group was deemed particularly relevant due to the relatively high incidence of downloading and listening to music.

**Table 1 Sample Description**

| Country | Valid N | Retail Store | Internet Purchase | Total Purchased | Borrowed & Copied | Internet Download | Total Stolen |
|---|---|---|---|---|---|---|---|
| UK | 193 | 24.4% | 23.3% | 47.7% | 22.8% | 29.5% | 52.3% |
| Lithuania | 193 | 25.4% | 1.6% | 27.0% | 10.9% | 62.2% | 73.0% |
| Estonia | 297 | 27.6% | 6.1% | 33.7% | 9.1% | 57.2% | 66.3% |
| Slovenia | 247 | 22.3% | 3.6% | 25.9% | 8.5% | 65.6% | 74.1% |
| Serbia | 179 | 27.9% | 4.5% | 32.4% | 34.6% | 33.0% | 67.6% |

The focus of the study's dependent variable was the manner in which respondents obtained her/his most recent acquisition of recorded music. Each respondent indicated that method on a list of four possible sources. These methods included: (1) purchase from a physical store, (2) purchased from an internet store, (3) unpaid internet download, and (4) copied borrowed music. Two categories were formed, those purchasing music legally and those not.

Measure development followed the process set by Churchill (1981). Items were generated from previously developed scales where possible, and new items for scales not yet in existence. Reliability analysis, using Cronbach's alpha and item-to-total correlations, showed that the original scale reliability could be improved on several dimensions by eliminating certain items. Such items were tentatively dropped, pending further analysis.

An exploratory factor analysis produced high loadings (>.5) for several items on more than one factor. Items dropped from further analysis were consistent with those items identified for removal by the reliability analysis. A measurement model using covariance analysis (Lisrel 8) was then run on the remaining items. Modification indices and standardized residuals were used to purify the scale and achieve unidimensionality of constructs as recommended by Gerbing and Anderson (1988). The final items were adopted for the survey in transitional countries. In the process of developing the survey instrument and modifying for a cross-cultural adaptation of

scale items, researchers followed the guidelines for conducting international consumer research specified by Craig and Douglas (1999).

Consistent with Joreskog's (1971) recommendation, reliability was calculated using rho (ρ), which is less subject to variations due to the number of items in a scale (Table 2). The validity and unidimensionality (Gerbing and Anderson, 1988) of the scale was tested with confirmatory factor analysis using LISREL 8 (Joreskog and Sorbom, 1993). Convergent validity was tested by examining the t-values of the Lambda-X matrix (Bagozzi, 1981). Discriminant validity was tested by setting the individual paths of the Phi matrix to 1 and testing the resultant model against the original (Gerbing and Anderson, 1988; Kumar et al., 1992), using the D statistic (Joreskog and Sorbom, 1993).

**Table 2 Scales and Reliability Measures**

| Construct | UK | Lithuania | Estonia | Slovenia | Serbia |
|---|---|---|---|---|---|
| UA | .776 | .689 | .794 | .800 | .817 |
| Collectivism | .800 | .730 | .782 | .735 | .826 |
| Internet Risk | .694 | .705 | .710 | .738 | .736 |
| Copy Quality | .899 | .875 | .894 | .861 | .919 |
| Attitude toward Music Industry | .805 | .831 | .832 | .726 | .805 |
| Internet Ability | .875 | .842 | .757 | .892 | .833 |
| Ethics of Copying | .900 | .710 | .710 | .860 | .920 |
| CFA RMSEA | 0.43 | 0.39 | 0.40 | 0.36 | 0.40 |

Measurement invariance was tested with Confirmatory Factor Analysis (CFA) using multi-group analysis in LISREL 8. Configural invariance is established by the consistent pattern of significant loadings between countries and the fit of the CFA (RMSEA = 0.40; GFI = 0.95). Full metric invariance was not established, nor expected, in a model of this magnitude (Steenkamp and Baumgartner, 1998). As suggested by Horn (1991, p. 125) and Steenkamp and Baumgartner (1998) metric invariance is “a condition to be striven for, not one expected to be fully realized.”

Moreover, Horn et al. (1983) and Steenkamp and Baumgartner (1998, p. 81) consider metric invariance as scientifically unrealistic. In academic research, the inability to specify full metric invariance occurs even in relatively limited two and three country groups (Laroche et al. 2004; Mavondo, Gabbott, and Tsarenko, 2003). Since the object of this research is not to compare means of measures across countries, scalar invariance assessment was not assessed (Steenkamp and Baumgartner, 1998, p. 80). Finally, as we do not make any direct cross-national comparison of absolute music acquisition methods, the relevance of differences in stylistic responding (e.g., acquiescence or socially desirable answers, see Baumgartner and Steenkamp [2001]) or in accumulated exposure to various methods of acquiring recorded music is not relevant.

**RESULTS**

A Multinomial Logistic Regression model was conducted to test the hypotheses raised (Table 3). While latent (SEM) models are typical for reflective scales of this type, as of yet, SEM is incapable of conducting analysis with nominal dependent variables unless it presumes an underlying continuity (Normally associated with the ORDINAL command in LISREL), which is not the case here. Thus the construct measures were factor scores derived using the regression method from a principle components factor analysis.

Two major models were conducted – one with and one without interaction terms (as would be suggested by the original model of moderating effects). None of the interaction terms were significant; therefore a direct effects model without interaction terms is presented here. Traditional retail store outlets are used as a reference category.

Table 3 depicts the results of hypotheses testing. All of the hypotheses were at least partially supported with the exception of the H3 (Attitudes toward the Music Industry) and H7 (Ability to use the Internet). Table 4 depicts parameter estimates.

**Table 3 Results of Multinomial Logistic Regression**

| Variable | Model Chi Sqr | p-Value 1 tail | Hypothesis |
|---|---|---|---|
| **Cultural Dimensions** | | | |
| Uncertainty Avoidance (UA) | 7.404 | .030 | H1: Partial Support |
| Collectivism | 9.717 | .011 | H2: Partial Support |
| **Attitudes** | | | |
| Attitude toward Music Industry | 2.749 | .216 | H3: Rejected |
| Ethics of Copying | 45.470 | >.001 | H4: Not rejected |
| **Beliefs of Quality** | | | |
| Quality of Downloaded Music | 96.395 | >.001 | H5:Not rejected |
| **Situational Factors** | | | |
| Ability to use Internet | 21.438 | >.001 | H6: Rejected |
| Internet Risk | 7.492 | .028 | H7: Partial Support |

## DISCUSSION

The first two hypotheses suggest that low UA and Collectivist cultures would be more likely to abuse Intellectual Property Rights. Interestingly, there is a negative relationship between UA and illegal downloading, but a positive relationship with borrowing CDs. Intuitively, this makes sense as, all else being equal, it is safer to borrow and burn music privately than it is to download it from a public channel. Likewise, collectivist cultures tend to borrow more music and download less. This result might be explained by the peculiarities of collectivistic culture that reflect willingness to form a group people can trust and the "ethics of shared responsibility" (Kolman et al., 2002, p. 83).

Referring to attitudes and beliefs, social needs are valued above all other needs (Mockaitis, 2002). Borrowing CDs refers not only to borrowing process itself, it also gives an opportunity to socialize and maintain relationships with members of the group.

**Table 4 Parameter Estimates**

| Last Music Acquired from: | Variable | B | One Tail p- Value |
|---|---|---|---|
| Internet Purchase | Intercept | -1.308 | .000 |
| | UA | -.215 | .005 |
| | Collectivism | -.151 | .128 |
| | Internet Risk | -.271 | .014 |
| | Copy Quality | .611 | .000 |
| | Industry Attitude | -.180 | .073 |
| | Internet Ability | .467 | .002 |
| | Copy Ethics | .387 | .002 |
| Borrowed | Intercept | -.377 | .000 |
| | UA | .064 | .264 |
| | Collectivism | .034 | .374 |
| | Internet Risk | -.131 | .100 |
| | Copy Quality | .253 | .005 |
| | Industry Attitude | -.074 | .237 |
| | Internet Ability | -.216 | .016 |
| | Copy Ethics | .285 | .004 |
| Internet Download | Intercept | .779 | .000 |
| | UA | -.136 | .045 |
| | Collectivism | -.202 | .006 |
| | Internet Risk | -.001 | .494 |
| | Copy Quality | .750 | .000 |
| | Industry Attitude | -.008 | .461 |
| | Internet Ability | -.094 | .125 |
| | Copy Ethics | .555 | .000 |

While it may be that people justify or rationalize their illegal activities from the actions of the music industry, the data indicate that those with negative attitudes toward the industry are no more likely to borrow/burn or download music illegally.

People who perceive downloading and borrowing music to be unethical are much less likely to participate in these activities. This finding supports Rest's (1979) statement that there is a negative relationship between consumer's level of moral decisions and their engagement in unauthorized piracy.

Apparently the quality of music available for download has a significant and potentially large impact on the downloading of music from the internet. The better the perceived quality of the music available for download, the more likely a person is to download – both legally (buying) and illegally.

Interestingly, the ability to use the internet has no effect on illegal downloading, but a significant impact on the purchase of music over the internet. Perhaps this is due to the reference group. The widespread downloading of music allows easy access even to those with limited skill, while purchasing take more skill level. This is in line with the complaint from people that the music industry has made it difficult to purchase music from the Internet – especially in foreign countries. While intuitively observable, the higher the risk of accessing the internet for music appears to deter individuals from purchasing on the internet but not from downloading illegally.

**Conclusion** The aim of this study was to examine cultural antecedents of Intellectual Property Theft in transitional economies. Specifically, we investigated theft of copyright recorded music. The results of this study highlight the importance of evaluation of cultural factors that influence propensity to the Theft of Intellectual Property. Our findings suggest that low UA and Collectivistic cultures are more likely to violate Intellectual Property Rights. Additionally, these cultures tend to borrow and copy CDs versus illegal downloading online. In addition, other factors such as ethics and risk also relate to the theft of Intellectual Property. Ethical issues are important when downloading music illegally. Individuals who see activities of borrowing or downloading as unethical would deter from taking part in those activities. Although the risk usually plays an important role in on line environment, in this case it does not prevent illegal downloading. Bearing in mind the role of UA and Collectivistic factors, future research needs to further investigate other cultural factors that are important in investigating the level of theft of Intellectual Property in transition economies.

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