

**THE EFFECT OF ETHICS ON CONSUMER INTENTION
TO PURCHASE COUNTERFEIT CLOTHING PRODUCT**

BY

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ABSTRACT

The issue of counterfeits has affected various industries including automotive, pharmaceutical, electronics, and fashion. As technology evolves, the quality of counterfeit products has also increased, creating a major threat not just to the genuine manufacturer and brand owners, but also to consumers. It is important that consumers understand the negative impact of counterfeiting beyond financial consequences, such as in terms of morality and ethical values of society. Hence, the purpose of this study is to look into the factors that affect consumer intention to purchase counterfeit fashion products. The framework includes eight latent variables – five exogenous and one endogenous. The exogenous variables are materialism, status consumption, consumer ethics, attitude, subjective norm, and perceived behavioural control, whereas the only endogenous variable is the intention to purchase counterfeit fashion products. Furthermore, this study also looks to extend the Theory of Planned Behaviour (TPB) by incorporating the theory of Consumer Ethics as part of the determinant of intention. The data were collected by using a self-administered questionnaire in the area of Klang Valley and the hypothesized relationships were analysed using Structural Equation Modelling – Partial Least Square (SEM-PLS). A total of 450 questionnaires were distributed for this study. The results from this study provide empirical support as per the proposed research framework. Attitude, subjective norms, and consumer ethics have been found to have a significant relationship with intention whereas perceived behavioural control was not. On the other hand, materialism has been found to have a significant relationship with attitude, whereas no significant relationship was found between status consumption and attitude. The findings from this study provide further understanding regarding the consumption of counterfeit fashion products. One of the implication that can be derived as a result of this study is that government agency such as Intellectual Property Corporation of Malaysia (MyIPO) such serve as a vital link between industry players and consumers. Various efforts should also be done in order to educate the Malaysian population regarding the importance of intellectual property and what are the legal as well as ethical issues with regards to counterfeit related products.

خلاصة البحث

للمنتجات المقلدة تأثير واضح على عدد من القطاعات الصناعية من مثل السيارات والأدوية والإلكترونيات حتى الأزياء، فقد باتت جودة المنتجات المقلدة مع تطور التقنية تحدياً كبيراً ليس للمنتجات الأصلية وأصحاب العلامات التجارية فقط، وإنما للمستهلكين أيضاً؛ إذ من المهم للمستهلك فهم التأثير السلبي للمنتجات المقلدة وعواقبها التي تتعدى أنها مالية إلى أنها أخلاقية وقيمة اجتماعية، ومن ثم؛ يهدف هذا البحث إلى تبين العوامل التي تؤثر في الدافع الذي يجعل المستهلك يُقدم على شراء الأزياء المقلدة، ويتكون إطار العمل من ستة متغيرات كامنّة؛ خمسة داخلية، ومتغير خارجي، والداخلية هي: المادية، وحالة الاستهلاك، وأخلاق المستهلك، والسيطرة السلوكية، والملاحظة، أما المتغير الخارجي فهو الدافع وراء شراء الأزياء المقلدة، كما يسعى البحث إلى توسيع نظرية السلوك المخطط TPB من خلال دمج نظرية أخلاق المستهلك جزءاً من الدافع المحدد، وقد جُمعت البيانات باستبانة تقييم ذاتي في منطقة وادي كلانج، وجرى تحليل العلاقات المفترضة باستخدام نمذجة المعادلات الهيكلية والتربيع الانحدار الجزئي (SEM-PLS)، وكان مجموع ما وُزِعَ 450 استبانة، وتُقدّم نتائج هذا البحث دعماً تجريبياً حسب معطيات البحث المقترح، فقد تبين أن للأسلوب والمعايير الشخصية وأخلاق المستهلك علاقة مهمة بالدافع، بينما لم يكن للسيطرة السلوكية والملاحظة أي أهمية، كما تبين أن للمادة علاقة مهمة بالسلوك، في حين لم يُعثر على علاقة مهمة بين حالة الاستهلاك والسلوك، ومن النتائج أيضاً توضيح مزيد يتعلق باستهلاك الأزياء المقلدة، كما أن من أهم ما تضمنته نتائج البحث أن للوكالات الحكومية من مثل مؤسسة الملكية الفكرية في ماليزيا MyIPO دوراً حيوياً حلقةً للوصل بين أصحاب الصناعة والمساهمين، وأنه يجب بذل جهود كثيرة لتوعية الماليزيين بأهمية الملكية الفكرية ومكانتها والتداعيات القانونية والأخلاقية لتقليد المنتجات المعنية.

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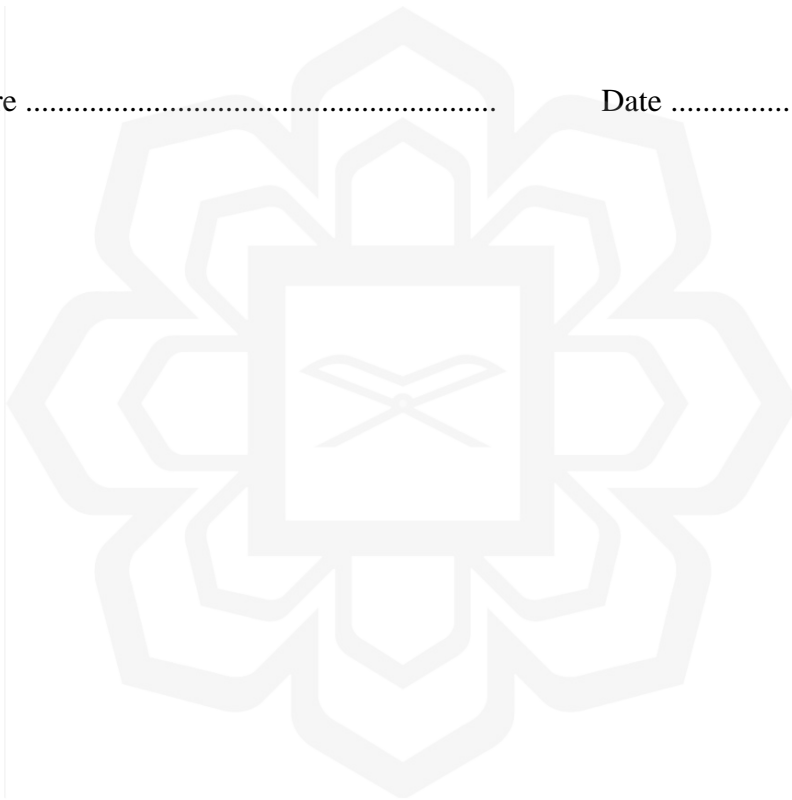
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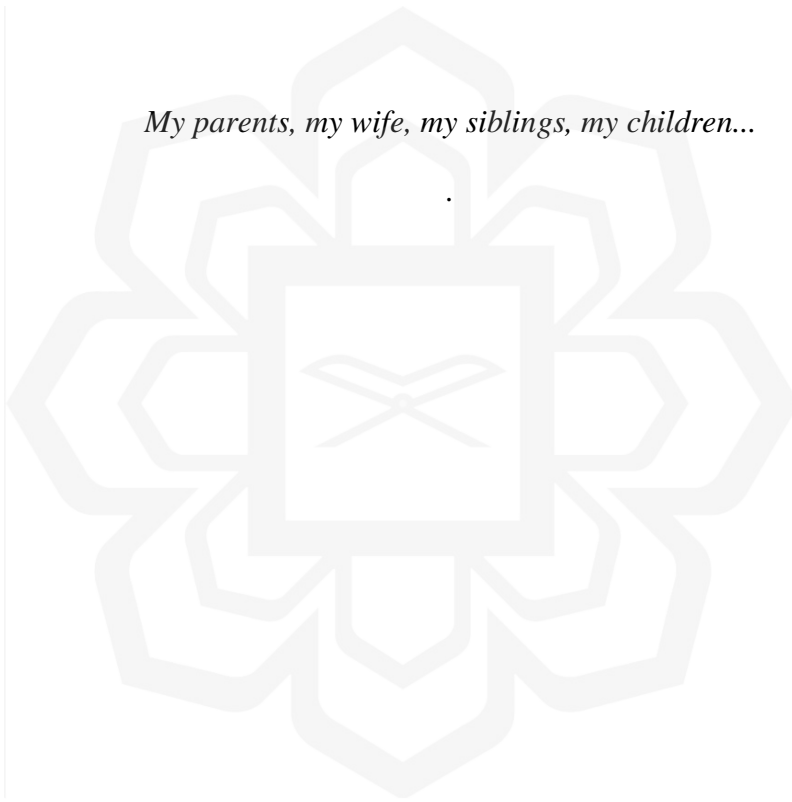
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My parents, my wife, my siblings, my children...



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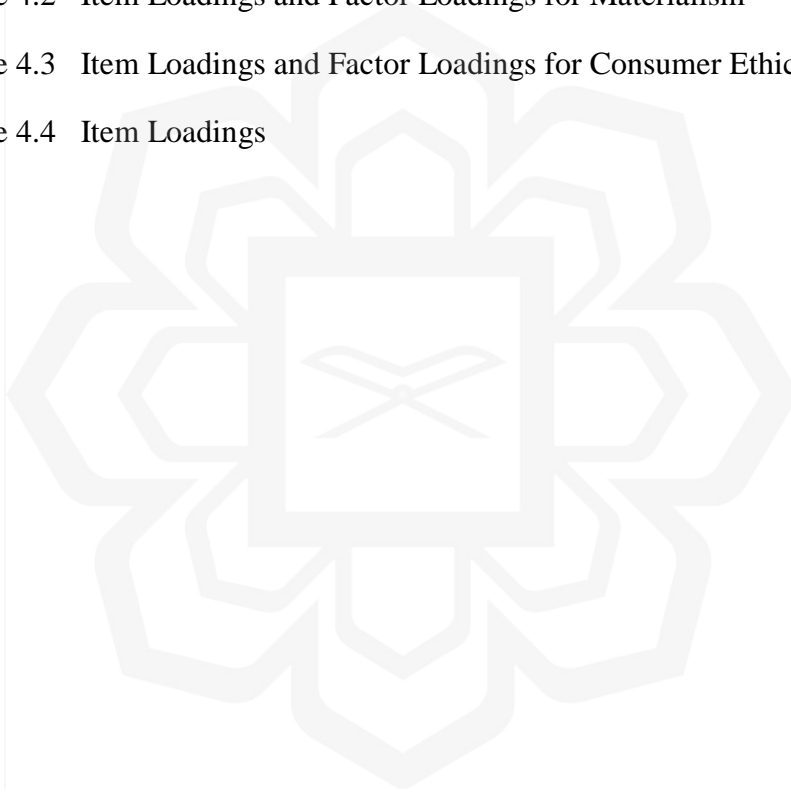
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CHAPTER ONE

INTRODUCTION

1.1 RESEARCH BACKGROUND

The manufacturing, distributing, and selling of counterfeit products is a form of consumer scam in which the products sold are alleged to be something that they are not. Counterfeiting has become a serious problem for an ever-widening number of industries. Threats are not just financial and economic, but also in terms of damaged reputation, especially when consumers are duped into purchasing counterfeits. Counterfeits and genuine products may vary across high involvement to low involvement categories. High involvement products are products that are purchased after careful consideration, while low involvement products are purchases made regularly with minimum consideration and effort.

The unauthorized use of brand names/logos comes in a wide variety of forms. Lai and Zaichkowsky (1999) listed four different categories of what would commonly be referred to as “fake” products: counterfeit, piracy, imitation, and gray market. A counterfeit is an illegally manufactured copy of a genuine brand, whereas piracy is usually limited to the copying and downloading of software, music, or video. Imitation is the legal manufacturing of look-alikes (often with names almost similar to genuine brands) or knock-offs, while gray market products are those produced by outsourced manufacturers who produce more than the contracted amount and distribute the extras through unauthorized channels.

The economic impact of counterfeiting is easily apparent and results in producers of genuine items acting harshly on those who are involved in such activity. The producers of the genuine items face various challenges, one of which is local

enforcement. In some countries, it is not illegal to buy counterfeit products. The loss of revenue is prominent and apart from that, producers of genuine items also face intangible losses, such as loss of goodwill, loss of brand reputation and a reduction in brand equity (Nia & Zaichkowsky, 2000). Such losses in intangible assets may create a different perspective among consumers towards the company. This may be the case especially in the form of deceptive counterfeits, when consumers are duped into purchasing a counterfeit item thinking it is a genuine product. Thus, consumers might lose confidence in the genuine brand manufacturer if they have a negative experience with the product. According to Ha and Lennon (2006), counterfeiting can impose serious damage on brand equity, brand prestige, and intellectual property, in turn harming businesses.

Technological advancement plays a crucial role in the manufacture and trade of counterfeit products. Technology allows manufacturers of counterfeit products to make their products look and sometimes feel exactly like genuine products. Counterfeit clothing is becoming very difficult to deter due to various factors. In the past, counterfeit fashion products most of the times are low in quality and loses colour after few times of washing. Advances in technology, outsourcing, increased international trade, are some of the factors that contribute to the rise of trade in counterfeit products. Oftentimes, counterfeit branded clothing is made by the same manufacturer that is contracted to produce the genuine items, resulting in the counterfeit products being identical to the genuine ones.

The rapid emergence of social media platforms has contributed to increased sales and demand for counterfeit products. The most popular platforms these days are Facebook and Instagram, whereby counterfeit products are marketed and made available to consumers across borders. According to the International Anti-

Counterfeiting Coalition, the counterfeit industry has grown over 10,000 per cent in the past two decades, which is currently estimated to be a \$600 billion a year problem. Further, counterfeit products amount to 5 – 7 per cent of the world trade. Such phenomena would not be possible without high consumer demand. The wide availability of counterfeit products such as clothing, watches, handbags and others contributes to the rise of this illegal industry.

There are distinct differences across various counterfeit products. For example, according to Phau, Sequeira and Dix (2009), a counterfeit DVD copy of movies offers almost the same experience as the genuine version; however, a counterfeit luxury or branded clothing is not the same as an original, despite similarity in design, color and overall appearance.

Research conducted by Gentry, Putrevu, Shultz II, and Commuri (2001) states that in a market in which there are few counterfeits, once the consumer decides to buy a product, her search will be restricted to the brand, assessing quality and price, as the typical search model predicts. However, in a market in which counterfeit products are widely available, the consumer can look for counterfeit product bearing a popular brand/logo, instead of the genuine product. Therefore, in this case, the consumer will first make a product decision and then decide on a brand. Consequently, he or she may extend the search process by considering not only genuine products, but also counterfeits at their different levels when deciding to buy (Gentry et al., 2001).

1.2 PROBLEM STATEMENT

According to Higgins and Rubin (1986), consumers purchase branded products because of the high quality and reliability of the product based on reputation of the manufacturer/brand where they guarantee the product has a high level of quality. But

this has evolved, as branded trademarks serve an additional function for purchasers of counterfeit branded products. It serves the purpose of demonstrating to others that they are consumers of a particular brand.

Luxury or branded products are viewed as symbols of class which is usually a reflection of their market value. Advertising plays an integral part in creating perception for customers regarding their brand. Endorsements by famous individuals or groups further enhance the value of the brand, thus influencing consumers to conform to their fashion lifestyle. The additional function that has been added to the branded trademark with regards to counterfeit products has created additional value to it, and thus increases the demand for such products. Those who purchase counterfeit branded clothing intentionally are assumed to have little or no concern regarding the originality of the product, as long as it appears genuine to others (Cordell, Wongtada, & Kieshnick Jr., 1996).

The act of counterfeiting can be traced back to ancient Roman times, when a certain wine merchant would imitate trademarks on wine amphorae on cheap wines so that it would look like a more expensive Roman wine in order to deceive consumers and gain higher profit margins (Philips, 2007). Over the past few decades, there is a major rise in the manufacturing and consumption of counterfeit goods. Globalization among others has played a significant part in expanding consumption pattern. Many companies and brands are able to penetrate more markets, thus creating a further desire to own international brands by consumers. International and well-known brands are usually associated with high prices as compared to local brands, and are more sought after because of their well-known presence in the market. Factors such as these are the main drivers which influence the selling and buying of counterfeit products.

Although there is a growing interest in global consumption issues in the 21st century, relatively little is known about the generalizability of consumer behaviour theoretical frameworks across diverse cultures (Russell & Valenzuela, 2005). Various research has been done in the area of consumer behaviour with regards to purchases and usage of counterfeit products in countries such as China, Brazil, Taiwan, and Singapore (Huang, Lee, & Ho, 2004; de Matos, Ituassu, & Rossi, 2007; Phau & Teah, 2009; Wang, Zhang, Zang, & Ouyang, 2005).

However, there is very limited research on the role of consumer ethics and ethical beliefs in affecting consumer intention to purchase counterfeit products. Most research involving consumer ethics with regards to unethical products focuses more towards pirated products, including software and downloading of music/movies (Liao, Lin, & Liu, 2010; Lysonski & Durvasula, 2008; Yoon, 2011). In addition, many studies on ethical judgement as well as consumer ethics have mostly been done in the West, with some cross-cultural studies involving Middle Eastern and Asian countries.

The reason a consumer first purchases counterfeits may seem only economic; that is, the benefit of a lower price (Cordell et al., 1996; Wee, Tan, & Cheok, 1995). Hence, it would seem apparent that lower-income consumers would tend to purchase counterfeit more than those with higher income. However, findings from (Bloch, Bush, & Campbell, 1993; Chaudhry & Stumpf, 2011; Eisend & Schuchert-güler, 2006; Riquelme, Abbas, & Rios, 2012; Weaver & Buff, 2012) show that many consumers in developed countries as well as countries with high purchasing power also prefer to choose counterfeits, suggesting the existence of other determining factors or attributes in counterfeit decision making.

Minimal research has been done in Malaysia with regards to counterfeit goods. Past research has focused more on piracy, which has been defined earlier as products

that involves unauthorized copying or distribution of computer software and games, music, and movies (Ahasanul Haque, Ali Khatibi, & Sabbir Rahman, 2009; Rahman, Haque, & Rahman, 2011; Ramayah & Jasmine Yeap Ai Leen, 2006; Suki, Ramayah, & Suki, 2011).

Counterfeit products in this research would refer to fashion products as listed previously. There is a lack of research with regards to such products in the counterfeit context, thus prompting this research to be undertaken. In terms of consumption, pirated products are usually used in private setting, whereas counterfeit goods, especially fashion products such as clothing, footwear, handbags and purses, watches, and sunglasses, are used publicly and often acquired to make a statement and impress others (Kim & Karpova, 2009).

Drawing upon an established social psychology theory, the Theory of Planned Behaviour (TPB) model developed by Ajzen and Fishbein (1980), this research mainly conceptualizes the need to examine psychological factors influencing consumers, such as their personal attitudes, social influences, perceived behavioural control, as well as consumer ethical beliefs that could explain and predict their intention to engage in purchase of counterfeit products. Numerous variables have been incorporated into TPB and/or TRA in various research in order to look into significant factors that also contribute to consumer intention to purchase desired products.

1.3 RESEARCH OBJECTIVES AND RESEARCH QUESTIONS

Based on the previous discussions regarding the rationale and significance of this research, the objectives of the research are as follows:

- 1) To examine the key factors in explaining consumers' intentions to purchase counterfeit clothing;

- 2) To determine the relationship between attitude toward counterfeits and intention to purchase counterfeit clothing;
- 3) To determine the relationship between subjective norm and intention to purchase counterfeit clothing;
- 4) To determine the relationship between perceived behavioural control and intention to purchase counterfeit clothing;
- 5) To determine the significant of relationship between consumer ethics with intention to purchase counterfeit clothing;
- 6) To determine the relationship between materialism and attitude toward counterfeits; and
- 7) To determine the relationship between status consumption and attitude toward counterfeits.

According to (Vitell, 2003), all aspects of consumer behaviour from purchasing to disposing of products, have an integral ethical component. Furthermore, Priporas, Kamenidou, Kapoulas and Papadopoulou (2015) pointed out that various established theories such as Theory of Reasoned Action have been employed to interpret the phenomenon of counterfeit purchase and has been explored from different angles such as motives and attitudes.

Consumer researchers have studied counterfeit purchasing from the decision-making point of view, where attitudes toward counterfeits influence the behaviour (Ang, Cheng, Lim, & Tambyah, 2001; Cordell et al., 1996; Phau & Teah, 2009). Other researchers have investigated the effects of other attitudinal and normative variables on counterfeit purchases from the view of rational, cognitive decision-making process: subjective norm and behavioural control (Kim & Karpova, 2009); informational and normative susceptibilities (Ang et al., 2001); attitude toward

unlawfulness (Cordell et al., 1996); and moral belief (Wilcox, Kim, & Sen, 2009). Underlying rationale is that beliefs or attitudes toward counterfeits or unethical consumption influence counterfeit purchasing. Additionally, attitude also serve as a pivotal base of human decision making. Consumers may form attitudes based on the fact that purchasing any type of illicit products can be financially harmful to the designers or to the manufacturers of genuine brand.

According to Cordell et al. (1996), counterfeit purchasing is a non-normative consumer behaviour in which participation is often justified by denying wrongdoing and deflecting the blame to the unfair advantage big business have on consumers. Some actually believe that counterfeiters actually deserved consumer support because counterfeiters supplied cost-efficient products with lower profit margins (Ang et al., 2001; Wee et al., 1995). This phenomenon is known as the 'Robin Hood' syndrome (Nill & Schultz, 1996) because consumers knowingly support counterfeits that violate trademark and intellectual property laws but feel rightfully justified in doing so. Thus it is also important to look at the ethical side of counterfeit purchase. As a result, the goal of this research is to answer several key research questions (RQ) as follows:

- 1) What are the key factors that explain consumers' intention to purchase counterfeit clothing?
- 2) What is the relationship between attitude toward counterfeits and intention to purchase counterfeit clothing?
- 3) What is the relationship between subjective norm and intention to purchase counterfeit clothing?
- 4) What is the relationship between perceived behavioural control and intention to purchase counterfeit clothing?

- 5) What is the relationship between consumer ethics with intention to purchase counterfeit clothing?
- 6) What is the relationship between materialism and attitude toward counterfeits?
- 7) What is the relationship between status consumption and attitude toward counterfeits?

1.4 SIGNIFICANCE OF RESEARCH

This research is proposed with the hope that it will be of assistance to examine the ethical issues in the marketplace from the perspective of consumers. To have a grasp or deep understanding of how consumer behave in an unethical situation (in this case intention to purchase counterfeit fashion products), there is no better insight apart from the consumer themselves. Understanding why consumers indulge in unethical behaviour may be helpful in ultimately curbing such practices.

As it is known, counterfeit products pose a threat not only to the genuine manufacturers, but also to nations in which the phenomenon is widespread, and what makes it worse, how it is accepted by the population. The gap that this research is trying to exploit is mainly the relationship between consumer ethics and intention to purchase counterfeit fashion products. Previous findings have showed that consumers might be ethical; however, if certain practices or activities are beneficial to themselves, they may be willing to disregard the ethical consciousness in order to satisfy their needs.

Furthermore, being a multiracial country, Malaysian consumers comprises of various religious, racial, and ethnic backgrounds which makes it essential to study related variables which will enable to understand how the consumer are in this

particular country and settings. Thus, it is imperative to take the perspective that contradictions occur between consumer ethics and satisfying consumer needs in Malaysia context as there are few, if any, studies looking into this phenomenon within the proposed context of counterfeit fashion products.

The importance of this research is hopefully to create a greater awareness regarding the negative impact of counterfeiting. The outcomes of this research may reveal in-depth the influence of attitude, subjective norm, perceived behavioural control, and consumer ethics towards intention to purchase counterfeit products.

1.4.1 Theoretical Perspective

This research adopts the existing theory of social psychology, the Theory of Planned Behaviour (Ajzen, 1991a), which alongside the Theory of Reasoned Action (Fishbein & Ajzen, 1975) is one of the most common theories used in studying behavioural intention on products. This research aims to test the well-established Theory of Planned Behaviour (TPB) model's validity within the context of Malaysian sample and applying it specifically to the purchase of counterfeit products. The purchase of counterfeit products is considered an unethical behaviour on the part of consumer, as they are purchasing a product which appears to be something that it is not. This also raises the questions regarding consumer ethics, whether a consumer with high ethics would purchase 'unethical' product or not.

This research is intended to advance existing knowledge by incorporating additional alternative insights relating to consumer intention to purchase counterfeit fashion products. Previous research on piracy have used several theories together such as the TPB and TRA (Chang, 1998) and TPB and Consumer Ethics theory (Yoon, 2011). This research will incorporate additional construct to the TPB in order to better