

Motivational factors in multilevel marketing business: A confirmatory approach

Sourav Jain^{a*}, B.B. Singla^b and Shashi Shashi^a

^aResearch Scholar, Punjabi University, Patiala, India

^bAssistant Professor, Punjabi University, Patiala, India

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ABSTRACT

In the present scenario of high unemployment; Multilevel Marketing (MLM) generates employment for people who have no permanent source of earning. MLM system has emerged as one of the prime alternatives in the current marketing system. India has become a very popular destination of doing MLM business with high potential of growth. MLM system provides lucrative compensation that works as motivation for people to join this business. Motivation for executives of any firm plays a major role in its success. It also leads commitment of employees towards work and responsibilities. An attempt has been made to identify the motivational variables that have the highest level of contribution for joining the MLM system. Most of the MLM companies focus on compensation plan or reward system but apart from that a number of variables have been found which motivate the distributors to engage in MLM business. Further, the distributors play a vital role in the growth of the business. In this study, we also propose a motivational model to help MLM companies formulate better strategies in making a large network of people for growth of business.

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1. Introduction

The contemporary business system includes manufacturer, distributors, retailers and final customers. Manufacturers make the products and supply to distributors or retailers, which are supplied to the final customers (Singh et al., 2013). With the passage of time, marketing started on playing an important role in business. In marketing, firms usually focus on advertisements by spending a colossal amount of money on promoting their new products in various ways such as TV commercials and newspapers. Thus, the high advertisement cost makes the product costly for customers and decreases the profit of the firm.

* Corresponding author. Tel: 9780195189
E-mail address: jainsourav88@gmail.com (S. Jain)

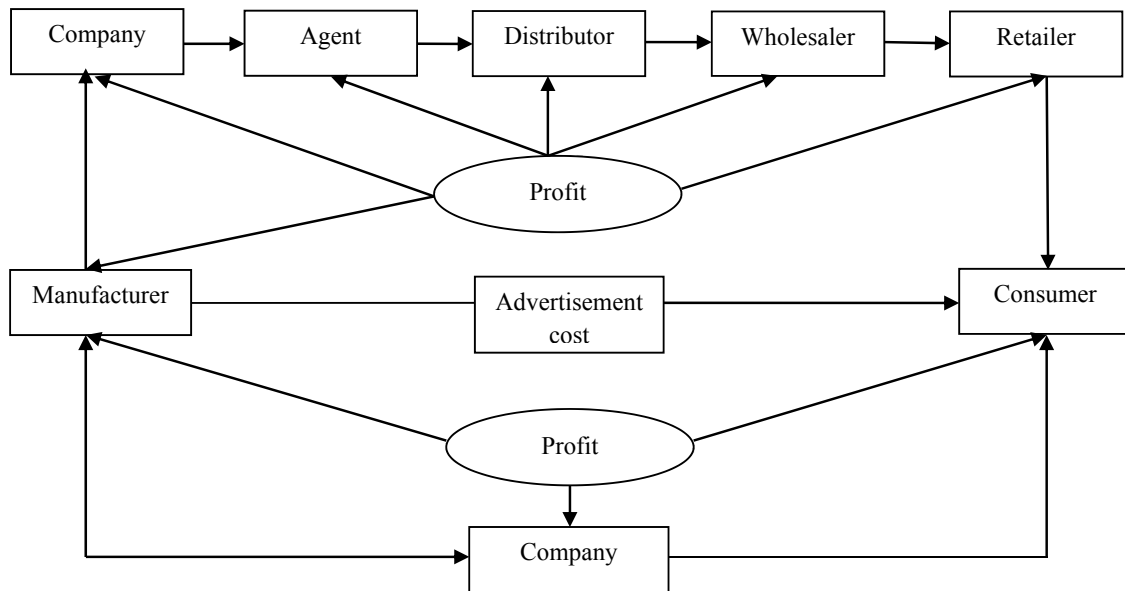


Fig. 1. Direct Selling V/S Contemporary Business System

1.1. Direct Selling

In order to abolish the malfunctions of contemporary marketing system and its policies, direct selling concept was developed. Direct selling is also a very old method of doing business. This concept is based on establishing a direct relationship between the customer and producer. It eliminates the role of intermediaries in the distribution channel.

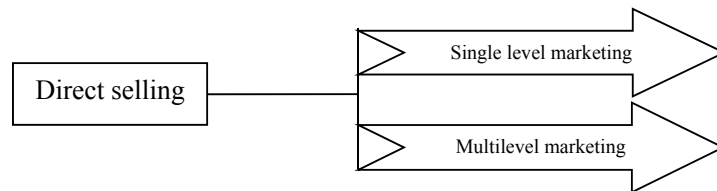


Fig. 2. Types of Direct Selling

2.2 Types of Direct Selling

Single Level Marketing: In single level marketing, the salesperson earns the income on the basis of the sales generated by him. He cannot multiply his sales volume by sponsoring other salespersons. Thus, the commission provided to the salespersons is on the basis of their sales performance.

Multilevel Marketing: In this system, the seller becomes distributor of the firm and can recruit other distributors or sales people under his sponsorship (downline). Thus, the uplinedistributor generates bonus and commission on the collectively sales of the group. Downliners help to augment the overall sale, and thus enable the upliners to earn a high commission.

MLM system provides firms an alternative way of promoting products to potential consumers by using relationships. It is the best way to use of human relationships and make a social network across the people. By using Network Marketing or customer referrals, the business entity need not incur advertisement costs. More importantly, the potential customer shows keen interest to buy the products from his acquaintance.

The origin of MLM is still a matter of confusion among various researchers. According to Pajera (2008) MLM system existed during 1920s to 1930s with Nutrilite or California Perfume Company rebranded as “Avon Product”. In the views of Attri (2011) this business concept started in 1940s with the *California Vitamin Company*. On the other hand, Evert (1994) stated that it originated in the 1960s and even as late as the 1970. In 1959, the employees of Nutrilite Jay Van Andel and Rich DeVos started their own firm called Amway (Dominique, 1993) and also acquired the business of Nutrilite in 1972. Since 1994, Amway is one of the largest business organizations in the MLM industry. In today’s MLM business, Avon, Amway, Forever, Modicare, Oriflamme, Tupperware, etc. are the most popular network selling firms.

Microsoft founder Bill Gates says “If I would be given a chance to start all over again, I would choose network marketing”.

Nobel Prize winning economist and author Paul Zane Piltzer thinks “Of all the entrepreneurial opportunities available today, one of the most important is direct selling also called network marketing”.

Nowadays, MLM is gaining much attention in business circles in the Indian environment. More than 10000 Companies of direct selling are operating in India, whose business turnover is more than 7200 crores in fiscal year 2013-2014 (Indian Direct Selling Association, IDSA). IDSA is an association which regulates the direct selling companies, core issues related to this business and future prospects of the trade in India. In MLM the distributors are compensated not just for their respective sales but the sales generated by the people they recruit. The recruiting is generally done through personal networking as shown in Fig. 3; thus MLM is also called “Network Marketing” (Muncy, 2004).

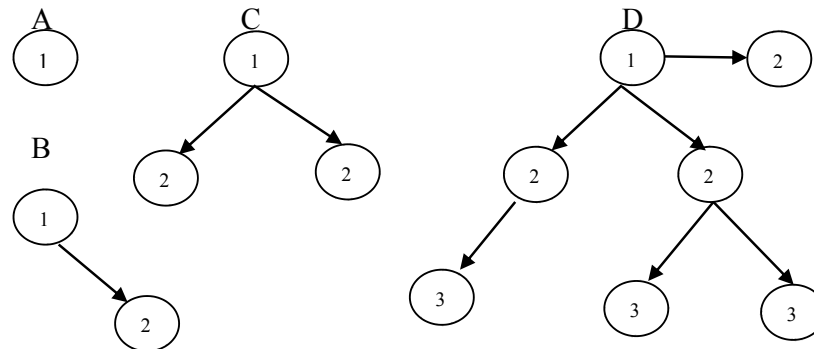


Fig. 3. MLM Network Structure

Most of the researchers have defined MLM is a type of direct selling (Duffy, 2005; Brodie, 2004; Marsh, 2004; Kiew & Run, 2007). Many researchers have defined MLM like pyramid schemes (Nat & Wicked, 2002; Maxima, 2013). Some of them described it as network marketing (Oksanes, 1999; Jones, 1995). Though MLM is given various names like Network Marketing, Chain Marketing, (money chain in a negative sense), the basic principle is that a happy consumer brings in more customers for which he is getting an incentive. The compensation plan varies from company to company.

1.3 MLM Compensation Concept

Here, an attempt has been made to describe comprehensive MLM concept and distinct types of this system. MLM works on the concept of time leverage and a unique strategy to sell the products to the final customers.

*I would rather earn 1% of 100 people’s efforts than 100% of my own efforts”
- John Paul Getty (American Billionaire)*

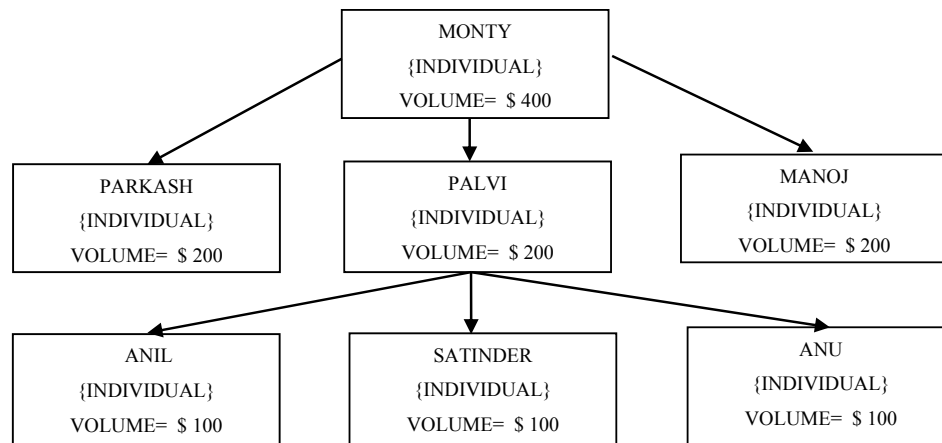


Fig. 4. Compensation Structure

Table 1
Net Compensation Structure

Member's Name	Total Volume	commission Rate \$ Amount	Net Commission Amount
MONTY	US \$ 1300	10% (US \$ 130)	US \$ 66
PALVI	US \$ 500	8% (US \$ 40)	US \$ 28
PARKASH	US \$ 200	6% (US \$ 12)	US \$ 12
MANOJ	US \$ 200	6% (US \$ 12)	US \$ 12
ANIL	US \$ 100	4% (US \$ 4)	US \$ 4
SATINDER	US \$ 100	4% (US \$ 4)	US \$ 4
ANU	US \$ 100	4% (US \$ 4)	US \$ 4

In this network arena, all the firms have a web based information system where a member can monitor the growth of his down line members, incomes accrued, etc. The visible part of the network is a distribution center (for product based MLM), weekly meetings of members, explanations of business plan, demonstrate products and recognition the achievements, etc.

2. Literature review

In MLM system, distributors do not receive a salary, but they received commissions on the sales of the products they sold as well as sold by their downline members whom they recruit. The amount of commissions depends on their group performance. Wang and Chang (1998) demonstrated that Lucrative compensation plan of a firm is the key factor that motivates the distributors to work in an enthusiastic manner. The effective compensation policy of MLM business provides the distributor an opportunity to earn extra money and it also gives the financial satisfaction to distributors (Keun, 2004; Palmatier et al., 2007; Parvi & Kabir, 2011). Kiewand and Run (2007) reported that financial rewards and product quality allured people to join and stay on in MLM business. Consumers want instantly and convincing solutions to their problems and desire innovative, nutritious and suitable products for consumption. Chaubey and Subramanian (2013) illustrated, the product feel, demonstration, opportunity to test and verify product claims are variables that satisfy the customers. Product quality is considered a prime embolden for repurchasing the products (Devi & Kalaiselvi, 2014).The MLM system affects its direct customer's willingness to pay through relationship marketing, therefore customers prefer to buy products from acquaintances, relatives, etc. rather than strangers. Oksanes (1999) inferred, distributors tend to create co-operative relationship with other distributors in order to accomplish their goals. This helps in building healthy relationship with co-workers and supervisor that lasts for long term (Parvin & Kabir, 2011). Hence, the social network as a factor plays an important role in success of business (Marsh, 2004; Palmatier et al., 2007).

Table 2**Key Motivational Variables**

Variables that motivate to join MLM	Researchers
Compensation:	Coughlan et al. (1998), Wang & Cheng (1998), Nat & Wicked (2002), Keun (2004), Marsh (2004), Keun & Run (2007), Chen et al. (2012), Buschgens et al. (2013), Fuji & Taji (2013), Jumpon et al. (2013)
Product Quality:	Cheng (1993), Brodie (2004), Keun & Run (2007), Goncalves (2008), Constantin (2009), Chen et al. (2012), Sarada (2012), Jumpon et al. (2013), Jain & Goyal (2013), Shirani et al. (2014), Devi & Kalaiselvi (2014)
Learning:	Akiny (2008), Choudhary (2013), Radmand & Mukhtaram (2013), Rani & Kumar (2013)
Extra Money:	:Wang & Cheng (1998), Keun (2004), Palmatier et al. (2007), Constantin (2009), Chaudhari et al. (2010), Chen et al. (2012), Qasim & Sayeed (2012), Choudhary et al. (2013)
Corporate Social Responsibility (CSR):	Rattanaphan (2012)
Own Hours:	Akiny (2008), Choudhary et al. (2013), Arya & Arya (2014)
Free To Work:	Akiny (2008), Choudhary et al. (2013), Arya & Arya (2014)
Personal Accomplishment:	Miekina (2012), Choudhary et al. (2013)
Build Rapport:	Oksanes (1999), Dai Fu (2012)
Lavish Lifestyle:	Dai et al. (2011), Spire (2011), Ismail et al. (2012)
Leadership:	Sparks (2001), Akiny (2008), Huong (2013), Rani & Kumar (2013)
Financial Security:	Palmatier et al. (2007), Parvin & Kabir (2011),
Be Own Boss:	Choudhary et al. (2013), Arya & Arya (2014)
Entrepreneur:	Choudhary et al. (2013)
Recognition:	Chang & Tseng (2005), Contantin (2009),
Company image:	Brodie (2004), Sizovaite & Pashaloudis (2011), Ismail et al. (2012), Rattanaphan (2012), Reavis (2014)
Low Investment:	Zamanian (1986), Albaum & Peterson (2011), Choudhary et al. (2013)
Low Entry Barrier:	Akiny (2008)
Company policy:	Chang & Tseng (2005), Younus (2006), Parvin & Kabir (2011), Albaum & Peterson (2011), Qasim & Sayeed (2012), Joshi (2013)

As we earlier discussed, India has become an emerging nation in MLM business. A large number of companies have adopted MLM system but still the people are perplexed to understand the difference between legitimate and illegitimate MLM Company. Some financial scams erupted from time to time hit the reputation of MLM companies and create negative perception towards MLM (Spire, 2011). Most of the people in Australia perceive the network marketing as pyramid scams, aggressive selling techniques, high pressure sales, recruitment policies and ponzi schemes (Kustin & Jones, 1995). According to Reavis (2014) in ponzi schemes, the compensation is paid by recruiting new members rather than selling the products to consumers. Veena (2014) evinced that lack of sport from up-line members, low income, lack of training, Rigid mindset, pyramid structure and difficult to recognize legal MLM companies are some variables that restrict women to join MLM companies. Thus, The contribution of women in expansion of MLM business is very less as compared to men.

Several studies (Poe, 1999; King & Robinson, 2000; Hedges, 2001; Kiyosaki, 2004) supported the concept of MLM business and emphasized it as a strong marketing system of 21st century. It also generates extra income for distributors who further can also avail many kinds of benefits.

3. Conceptual Framework and Gap Analysis

In this section, the issues related to MLM are reviewed meticulously. The prior studies revealed that this business system has been growing day by day. India has become one of the largest markets in the world in MLM business. The report of IDSA presented that Amway is the market leader in India with 44% of total market share. In addition to the review of literature, we also conducted the interviews of representatives and top level executives of MLM companies. By taking their views into consideration, we formulated a conceptual framework to depict the motivational factors that have the highest level of contribution in the expansion of MLM business. As we already discussed, many researchers defined MLM in their own style and termed it in a different manner. Although the whole concept is same and it revolves around two sided theory of recruiting and selling. According to Reavis (2014) majority of the people have a negative perception towards MLM because of frequently occurred financial scams that are also called Ponzi schemes. Albaum and Peterson, (2011) described the attributes of legal MLM and explored that it is based on selling the products or services rather than only recruiting new members.

Cheng (1993), Brodie (2004), Keun & Run (2007), Goncalves (2008) and Constantin (2009) observed product quality as a major factor that influences the perception of the customer. According to Akiny (2008) there is a low entry barrier because people can join Network Marketing organization with irrespective of their demographic profile. Besides it, researchers covered various issues regarding MLM as: Extra money can be earned through good Compensation plan (Coughlan et al., 1998; Wang & Cheng, 1998; Nat & Wicked, 2002) transformational leadership (Sparks & Schenk, 2006) and entrepreneurial motivation (Kuntze, 2001). MLM system has appeared as one of the most successful marketing systems in the past several decades (Sparks & Schenk, 2001), still a few researchers conducted empirical studies in this area and also ignored some key motivational variables that persuade people to join MLM business. As shown in Fig. 5. Motivation also leads commitment towards work responsibilities and contributes in business' growth.

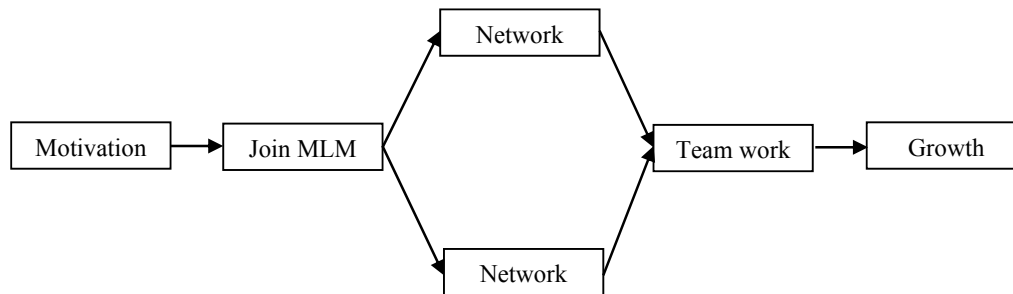


Fig. 5. Impact of Motivation

In this study, we aimed to explore the various motivational factors that influence the people to join MLM. We proposed a confirmatory factor analysis model and testing construct covariance for better understanding of motivational factors in MLM system.

4. Research methodology

This study investigated the factors that motivated the respondents to join MLM business. The 26 item semi-structured questionnaire was developed to rate them on 5-point Likert scale and sent to 23 MLM experts for pre-pilot survey. Then it was improved on the basis of their recommendations and sent for pilot survey. The results of pilot survey did not support the level of acceptance of Eigen and communality values of two items i.e. support system and extra skills. Therefore, we removed these two items from questionnaire after discussion with experts. Finally, the large scale survey was done on 24-item, 5 points Likert scale (1 = strongly disagree to 5 = strongly agree). The 382 questionnaires were sent to distributors working in various MLM companies irrespective of their demographic features within the region of Punjab, Chandigarh and Haryana. Thus, respondents from all walks of life were ensured. The respondents answered a 2-Part questionnaire. Part A- Contained questions on the respondents' demographic profile and Part-B was about the reasons for joining MLM. Finally, the 337 questionnaires were returned that demonstrate the 88.21% return rate. But we found 21 unengaged responses and did not digitize them in SPSS. Finally, the total 316 responses were used for data analysis. The principal component factor analysis with varimax rotation technique was used to group the same items in one construct.

5. Results and discussion

A factor analysis was performed to identify the motivational factors that allured the respondents to join MLM business. The results obtained (.912) value of Kaiser-Mayer-Olkin (KMO) and Chi square (8566.11) and P value is (0.000). The social responsibility has a maximum variance of (22.904%), self development has a variance of (21.887%) followed by personal freedom and working lifestyle with

variance of (20.992%) and (14.993%) respectively. The cumulative percentage of variance is 22.904%, 44.791%, 65.783% and 80.776% respectively.

Table 3
Scale Statistics

Variables	Mean	Total Corrected items	Communality	
			Initial	Final
Contribution	2.2215	.800	1.000	.736
Learning	2.0886	.911	1.000	.884
Extra Money	4.5000	.841	1.000	.811
Challenged	3.2627	.954	1.000	.946
CSR	2.1139	.955	1.000	.944
Innovative	2.123	.927	1.000	.907
Work Anytime	4.5411	.902	1.000	.882
Work Anywhere	4.4778	.814	1.000	.771
Accomplishment	3.7880	.710	1.000	.634
Build Rapport	3.9051	.946	1.000	.933
Lifestyle	2.2658	.874	1.000	.850
Leadership	3.9051	.840	1.000	.807
Fun	2.2658	.840	1.000	.793
Financial Security	3.3829	.822	1.000	.768
Locations	3.3228	.948	1.000	.936
Be Own Boss	3.8323	.860	1.000	.842
Recognition	3.3544	.777	1.000	.710
Company Image	3.7627	.778	1.000	.731
Low Investment	4.4715	.709	1.000	.628
Easy Entry	4.4873	.797	1.000	.747
Compensation Plan	3.8956	.745	1.000	.686
No Sale Target	3.3608	.839	1.000	.792
Product Quality	4.5222	.788	1.000	.745
Company Policy	3.2974	.925	1.000	.906
Chi square =8566.11	Df==276	Variables= 24	Number=316	Alpha= .841
Variance = .772	Item mean = 3.54			

Table 4
Factor Analysis Results

Variables	Factors			
	Social Responsibility	Self Development	Personal Freedom	Working Lifestyle
CSR	.970			
Build Rapport	.965			
Innovative	.951			
Learning	.940			
Fun	.889			
Contribution	.885			
Challenged		.970		
Locations		.965		
Company Policy		.950		
No Sale Target		.884		
Financial Security		.875		
Recognition		.834		
Work Anytime			.937	
Extra Money			.896	
Work Anywhere			.863	
Product Quality			.857	
Easy Entry			.847	
Low Investment			.792	
Lifestyle				.917
Be Own Boss				.906
Leadership				.888
Company Image				.848
Compensation Plan				.812
Accomplishment				.788
Eigen Values	5.497	4.873	4.654	3.598
% Of Variance	22.904	21.887	20.992	14.993
Cumulative % Of Variance	22.904	44.791	65.783	80.776
Alpha	.968	.961	.935	.845
Factor mean	2.15	3.33	4.49	3.82

Table 4 shows the loading of all 24 variables. All the 4 factors have good loadings and comprised the same number (6) of variables. The obtained values in this study are following: Cronbach alpha value = > 0.841, Item-to-total correlation = .955 to .709 and Inter-item-correlation = .967 to .537.

Table 5
Result of Factor Analysis

Factor	Total Covered Variables	Factor Loading Range	Inter-Item Correlation Range	Item-To-Total Correlation Range	Explained Variance	Eigen Value
Social Responsibility	6	.970 to .885	.942 to .687	.955 to .800	22.904	5.497
Self-Development	6	.970 to .834	.967 to .661	.955 to .777	21.887	5.253
Personal Freedom	6	.937 to .792	.835 to .599	.902 to .709	20.992	5.038
Working Lifestyle	6	.917 to .788	.842 to .537	.874 to .710	14.993	3.598

6. Confirmatory model results

The proposed confirmatory factor analysis model is shown in Fig. 6. The personal freedom construct loadings for variables are given as: low investment (.73), work any time (.94), extra money (.88), work anywhere (.85), product quality (.82), and easy entry (.82). This construct’s obtained mean (4.49) shows that the variables under this construct have the maximum level of contribution in motivating respondents to join MLM. The respondents have desire to call their shots with their own style. The Study also revealed that they can join MLM without any hurdle and they can earn extra money by making low investment. The majority of the respondents rated MLM products of high quality. The followings are the variables involved in construct of working lifestyle and their loadings are shown as following: accomplishment (.72), compensation plan (.76), company image (.78), leadership (.90), be own boss (.91), lifestyle (.92) and the construct mean (3.82) revealed that be own boss and compensation policy are key variables. The majority of the respondents claim that they join MLM because of these variables. Personal accomplishments, leadership quality and to improve lifestyle play an important role to motivate respondents. Brand name of the company is also one of the important motivational variables that attract respondents towards the company. Fig. 6 Shows that self development has 6 variables that are depicted with their loadings as following: challenged (.99), location (.98), company policy (.96), no sales target (.86), financial security (.81) and recognition (.76). The construct mean value (3.33) shows, there is mix response regarding above variables. There is covariance of (.39) between e11 and e12 in this construct. MLM companie’s challenging tasks, policies regarding recognition and sales target affect some respondent’s perception to join the MLM system. This business system also provides opportunities for its members to work at exotic locations which create willingness to join this commerce activity. As a financial security concerned, MLM is no exception because financial security has been always a reason for doing any business. But respondents are perplexed to consider financial security as a motivational variable.

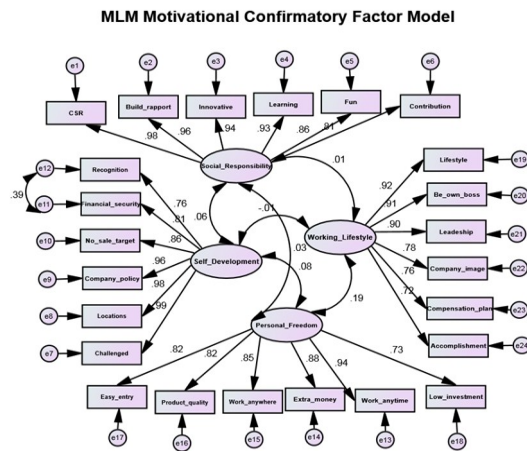


Fig. 6. MLM Motivational Confirmatory Factor Model

Social responsibility construct has 6 variables with total construct mean of 2.15. The loadings of this construct are: CSR (.98), build rapport (.96), innovative (.94), learning (.93), fun (.86) and contribution (.81). This results evinced, that these variables do not motivate respondents to join MLM business.

Model fit

The Tables from 6 to 10 show the obtained model fit values. Here, we have obtained CMIN/DF value (.986), P value (.000), CFI (.986), GFI (.901), RMSEA (.039) and PCLOSE (.984). This indicates that the purposed model absolutely fits for motivational factors that affect joining decision.

Table 6

CMIN

Model	NPAR	CMIN	DF	P	CMIN/DF
Default model	79	364.854	245	.000	1.489
Saturated model	324	.000	0		
Independence model	48	8813.261	276	.000	31.932

Table 7

RMR, GFI

Model	RMR	GFI	AGFI	PGFI
Default model	.076	.901	.879	.739
Saturated model	.000	1.000		
Independence model	.517	.250	.185	.230

Table 8

Baseline Comparisons

Model	NFI Delta1	RFI rho1	IFI Delta2	TLI rho2	CFI
Default model	.959	.953	.986	.984	.986
Saturated model	1.000		1.000		1.000
Independence model	.000	.000	.000	.000	.000

Table 9

Parsimony-Adjusted Measures

Model	PRATIO	PNFI	PCFI
Default model	.888	.851	.875
Saturated model	.000	.000	.000
Independence model	1.000	.000	.000

Table 10

RMSEA

Model	RMSEA	LO 90	HI 90	PCLOSE
Default model	.039	.031	.048	.984
Independence model	.313	.308	.319	.000

It is highly necessary to establish reliability as well as validity for confirmatory factor analysis. The absence of validity and reliability makes model useless. Hair et al. (2010) proposed some parameters of model reliability and validity is hereunder: shown in Table 11.

Model validity

Table 11 shows that there is no validity concerns. All required values of Composite Reliability (CR), Average Variance Extracted (AVE), Maximum Shared Variance (MSV) and Average Share Variance ASV are obtained. Thus, the proposed model is absolutely valid for MLM business.

Table 11

Model validity

Construct	CR	AVE	MSV	ASV
Self Development	0.959	0.797	0.006	0.003
Social Responsibility	0.967	0.832	0.003	0.002
Working Lifestyle	0.928	0.685	0.034	0.012
Personal Freedom	0.935	0.706	0.036	0.015

7. Conclusion and recommendations

In this study, we developed a motivational model for MLM system. The obtained results demonstrated that product quality, easy entry, low investment, extra money, work anytime and anywhere are the most effective variables that persuade people to join MLM. Leadership, personal accomplishment, company image, be own boss are also some key variables that attracts people towards MLM. Here, the social responsibility factor does not contribute in motivating people to join MLM. On the other hand, self development factor obtained a mean score of 3.33 which reveals the mix response of the respondents towards the variables comes under self development construct.

In addition, the motivational confirmatory model shows that all factors are independent because there is no correlation among them. The results of this study have been empirically tested and validated.

The findings suggest that MLM companies should focus on providing recognition to their loyal and hardworking distributors. MLM should formulate the policies in such a way that each member or distributor feels financially secure and comfortable to work.

The proposed model will help MLM companies to formulate better strategies to overcome turnover problems faced by distributors and ensure their commitment towards work. Further, it yields high productivity in organization. On other hand, Legitimate MLM companies are required to make their policies more transparent and conduct seminars to create awareness amongst people regarding the business structure.

In this research, the target population was the only MLM companies' distributors in India. This study would have been more extensive and beneficial if it had also included customers of MLM companies in India. A future research can be carried out on MLM product attributes that allure customers to purchase the products and join the business.

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