

# INDONESIAS' MULTILEVEL MARKETING ORGANIZATION COMPETITIVENESS UNDER TURBULENCES: A PROPOSES MODEL

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## Abstract

Multi-level marketing or what is called network marketing is a form of direct selling, a rapidly evolving trend and continuously grow. MLM businesses have a certain characteristic uniqueness. The MLM companies distribute and sell goods through direct contact between the customer and independent distributors. The distributors are paid earnings as profit from their own retail sales and by sales made into the company by other direct and indirect recruits. This paper will focus literature review and desk research on multilevel marketing organization from the firm perspective, with the aim of filling this gap and at the same time answering research questions about what factors can enhance the competitive capability of multilevel marketing companies in the face of turbulent times to maintain company performance. This current literature study has proposed the important of competitive capability for multilevel marketing, and rising opportunity in environment turbulences with supported by Strategic Agility, HRM Practices, Network Externalities. The proposed variable already examining in various industry but multilevel marketing organization.

**Keywords:** Multilevel Marketing Organization, Competitiveness UNDER Turbulences, A Proposes Model

## INTRODUCTION

Multi-level marketing or what is called network marketing is a form of direct selling, a rapidly evolving trend and continuously grow (Tay & Meng, 2018). MLM businesses have a certain characteristic uniqueness. The MLM companies distribute and sell goods through direct contact between the customer and independent distributors. The distributors are paid earnings as profit from their own retail sales and by sales made into the company by other direct and indirect recruits (Coughlan & Grayson, 1998). Started in the 1940s, multilevel marketing provided an alternative business model, reduced fixed costs and added a "business opportunity." The multilevel marketing model is no longer only focused on commissions and operates on a dual premise of selling products across a network of independent distributors who are also responsible for the recruitment of new distributors (Keep & Nat, 2014). Over many years, before the World War II, network marketing grew. Network marketing became a full-length career scheme from a part-time position (Gharde & Ahmad, 2020).

The majority of researchers conducting research on multilevel marketing discussed pyramid fraud (Beasley, 2012; Cardenas & Fuchs-Tarlovsky, 2018; Chang et al., 2005; Hyman, 2007), business ethics (Groß & Vriens, 2016; Koehn, 2001; Liu, 2018; Muncy, 2004; Peterson & Albaum, 2007), and business model adoption (Good & Hassay, 2015; Weng Wong & Nasir, 2019). Very rarely found research regarding multilevel marketing that studies competitiveness (Keong & Dastane, 2019), or distributor performance and distributor satisfaction more to individual behavior (Lee & Loi, 2016; Li et al., 2016), there are also very few who discuss commissions and how to distribute commissions in multilevel marketing (Coughlan, 2016; Hiranpong et al., 2016; Reingewertz, 2016). In the research methodology most of the target unit of analysis is a members of a multilevel marketing company or individual, commonly referred to as an independent distributor (Dong et al., 2018; Hwa-Meei Liou, 2018; Ivashkova et al., 2018; Lee & Loi, 2016; Li et al., 2016; Tay & Meng, 2018) but not examine from the organization or company perspective. (Keong & Dastane, 2019) research is to investigate the factors

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contributing to sustainable competitive advantage for multi-level marketing (MLM) firms in Malaysia, findings show that company image, leadership, distributor rewards system and distributor training system were supported and are factors affecting the sustainable competitive advantage of MLM companies in Malaysia, and product innovation was not supported but this result does not depict that it is trivial and inconsequential in maintain sustainable advantage.

This paper will focus examine multilevel marketing organization from the firm perspective, with the aim of filling this gap and at the same time answering research questions about what factors can enhance the competitive capability of multilevel marketing companies in the face of turbulent times to maintain company performance. In covid-19 pandemic time, most of business will face economically turbulence (Ayithey et al., 2020; Buklemishev, 2020) no exception multilevel marketing company.

### LITERATURE REVIEW

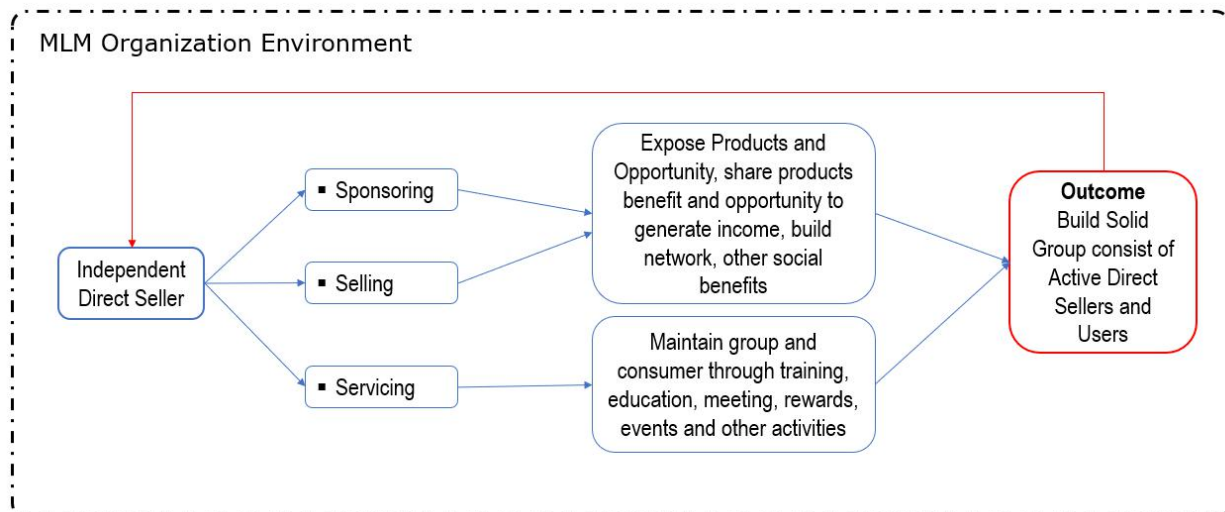
#### MLM Organization

According to Albaum & Peterson (2012) the multilevel marketing model varies in several aspects. The parent company turns fixed costs into variable costs by shifting the recruitment, training and supervision of new independent distributor to the sales force. Under the MLM model, any "distributor" is able to potentially build

a business by recruiting new distributors, who also can recruiting new distributors, "downline" all direct and indirect recruits and buying products and potentially available for selling product and recruiting.

Multilevel marketing in which the sales force is not only paid for its sales but also for the profits generated by its group. This recruited sales group is known as the participants who can receive several compensation levels. The role of an individual is to recruit others to sell their product and to obtain a proportion of the earnings in return. The next person's job then will be to recruit and receive a percentage of sales even lower than them (Merlin, 2012).

Multilevel marketing business concept asserted by Albaum & Peterson (2012) and Merlin (2012) in their research papers also invigorated by Keep & Nat (2014) that people who pursue in multilevel marketing business not only do the selling product activities, and recruiting or sponsoring new distributor to join the business, train the new recruit to do same things, selling products and recruiting new distributor. Sponsoring and selling activities expose products and opportunity, share the business and product benefit, build network and community, services activities contain training program and education (Keong & Dastane, 2019; Lee et al., 2016; Lee & Loi, 2016; Lerkjarijumpon et al., 2013; Nga & Soo, 2011).



**Figure 1.** MLM Organization Environment by Researcher

### METHODOLOGY

The proposed research framework developed on the behalf of previous literature. Whereby, environmental turbulence moderates the relationship between Strategic Agility, HRM Practices, Network Externalities and Competitive Capability in application in multilevel marketing industry. Using the conceptual modelling methodology in this current study. Moreover, for a conceptual framework and analyzed more than 79 selected conceptual and empirical papers from Scopus, Science Direct, Taylor and Francis, Springer, Wiley, IEEE, ACM and Emerald. These sources have been reviewed to have a comprehensive insight of any potential gaps in the previous studies.

### DISCUSSION AND RESULT

#### Competitive Capabilities

An organization's competitive capacities can be interpreted as the ability to meet client expectations relative to its competitors' capacity. Multilevel marketing organization competitiveness is the organization ability to develop, maintain and expand the organization market share and profit (Thi Hang et al., 2019). The Resource-Based Theory, explains that "resources" and "capabilities" are required by an organization to create sustainable high performances and needed to form the competitive entry barrier (Barney, 1991; Barney, Ketchen, & Wright, 2011). Changes in technology, competitor behavior, and customer criteria that concentrate on inside resources neglect can increase or remove the competitive value of resources, heterogeneity or uniqueness of resources are deemed necessary to contribute to a competitive advantage through a resource package (J. M. Kyengo & Kilika, 2017). In this study, based on extensive literature review, competitive capability is

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measured by cost leadership, service quality, delivery reliability, process flexibility (Alromeedy, 2019), new product flexibility (J. Kyengo, 2017), and innovation (Tabe Khoshnood & Nematizadeh, 2017).

A major factor in the participation of consultants is their high competitive positions, such as Image and brand awareness, communication, product range, the intensity of participation programs (including the compensation plan, consultants' loyalty programs), merchandising, catalog publishing frequencies and staff training (Ivashkova et al., 2018).

### **Strategic Agility**

Strategic agility is an established agility that pays particular attention to strategic aspects and to anticipating environmental changes before rapid response takes place. Most studies have focused on productivity and supply chain agility in the field of agility and competitive advantage. Developing agility capabilities, rapid response and adaptation to environmental changes are known as competitive advantage instruments, strategic agility has had significant impact on the competitive capabilities of the private banks in Iran (Tabe Khoshnood & Nematizadeh, 2017). Strategic agility refers to the ability to adjust and adapt strategic orientation in the core business continuously according the changing strategic ambitions and circumstances of the company and to create new products , services, new models of business and innovations for a company value (Alromeedy, 2019). Ahmed et al (2019) research supports the causal connections of agility variables as one of competitive capabilities. In this paper focus assesses the three dimensions of strategic agility: strategic sensitivity, leadership unity, and resource fluidity (Clauss et al., 2019), develop an examination of the Proposition 1. Strategic agility has a positive significant impact on increasing the competitive capabilities of the multilevel marketing organization.

### **HRM Practice**

HRM Practice is very important in every organization or company because proper management can support the sustainability of the company and increase the firm's performance (Shaoheng et al., 2019). Based on (Bos-Nehles & Veenendaal, 2019) research finding that employee perceptions of a compensation system are negatively related to Innovative Work Behavior, and that employee perceptions of information sharing and supportive supervision are positively related to Innovative Work Behavior. The effect of perceptions of information sharing and training and development on Innovative Work Behavior are moderated by an innovative climate, in such a way that information sharing has a stronger effect on Innovative Work Behavior and training and development a weaker one. Managers can stimulate innovative behavior by investing in information sharing, supportive supervision, and establishing an innovative climate. The estimation of job performance in the sense of R&D engineers is taken as part of human resources management practices with dimensions (training and development, performance appraisal, and reward system). Job performance focuses on work efficiency for the analysis (Somu et al., 2020). One of the main competitive factors for an enterprise or business is human resources. The highly qualified human resources are the secret to the competitive advantage of the organization (Hakim & Hidayat, 2018). Most of HRM

Practices studies analysis through employee perspective (Boon, Den Hartog, & Lepak, 2019; Bos-Nehles & Veenendaal, 2019; Hazra et al., 2017; Mianji & Niroumand Hosseini, 2019; R A Khan et al., 2011; Somu et al., 2020), and in multilevel marketing the salespeople is not firm employee with fixed salary, so it is called "independent business owner", "independent contractor", "distributor", "agent" (Attri & Chaturvedi, 2011; Goyal, Sharaff, & Nagwani, 2014; Gregor & Wadlewski, 2013; Lee & Loi, 2016) which they earn commission from personal sales and group sales (Herbig & Yelkur, 1997; Sparks & Schenk, 2006). Researcher examine HRM Practices with dimensions training and development (Bos-Nehles & Veenendaal, 2019; Somu et al., 2020), performance appraisal and reward system (Somu et al., 2020), compensation system, information sharing, and supportive supervision (Bos-Nehles & Veenendaal, 2019) in multilevel marketing context as Proposition 2. HRM Practices has a positive significant impact on increasing the competitive capabilities of the multilevel marketing organization.

### **Network Externalities**

Competition mechanisms usually include network effects and multiple interactions. We often find that a platform dominant in recent times benefits consumers, implying that this platform often attracts many consumers in the current era (Halaburda et al., 2020). Network externalities are an important way for businesses to achieve competitive advantage, (Bai, Zhang, & Song, 2019) empirically discusses the impact of network externalities on consumer recommendation between luxury goods and necessities based on theory of network externalities. The findings of the experiment show that for both luxury and need goods, customer recommendation is influenced in a positive way by direct network externalities whereas customer recommendation is influenced by indirect network externalities. The network externalities refer to the concept of increased usage by each user of the same product or service, which is also the result of increased consumption by another user. Network externalities is divided into two dimensions: direct network externalities and indirect network externalities. Direct network externalities refer to the increase of consumer utility directly caused by the increase of the number of consumers consuming the same product. Indirect network externalities mean that with the increase of the number of users of a product, the number of complementary products of the product increases or the price decreases, thus making consumers more willing to buy the product and indirectly increasing the value of the product (Bai et al., 2019). In this paper examining network externalities dimension from (Mouakket & Sun, 2019) and (Lin & Lu, 2011) Number of members, Number of peers, Perceived complementarity to verify Proposition 3. Network Externalities has a positive significant impact on increasing the competitive capabilities of the multilevel marketing organization.

### **Environment Turbulence**

The magnitude and unpredictability of shifts in consumer dynamics are correlated with environmental turbulence. Rapid changes in customer preferences and technological developments characterize turbulent environments. Under challenging environments businesses also face the pressures of relentless competition and the gap between products and their rivals. Due to turbulent environments,

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market opportunities and crises are created (Chong et al., 2016; Clauss et al., 2019; Haleblan & Finkelstein, 1993). The moderating effects of environmental turbulence are multi-faceted. According to (Imran, Aziz, & Hamid, 2016) export marketing orientation has a positive influence on export growth and sales under the high intensity and technological turbulence. Strategic agility is positively related to business model innovation and that this relationship is indeed strengthened by the degree of environmental turbulence (Clauss et al., 2019). The distributors/consultants' business in the Russian market of perfume and cosmetics can be a good alternative to the accepted forms of career development in the conditions of market turbulence and the economic situation uncertainty (Ivashkova et al., 2018). Environmental turbulence is seen to be strongly influence business activities, include processes, systems, and strategies. Although external environmental beyond the influence and control of the organization, they actually provide the opportunities (Möller & Halinen, 2000). In multilevel

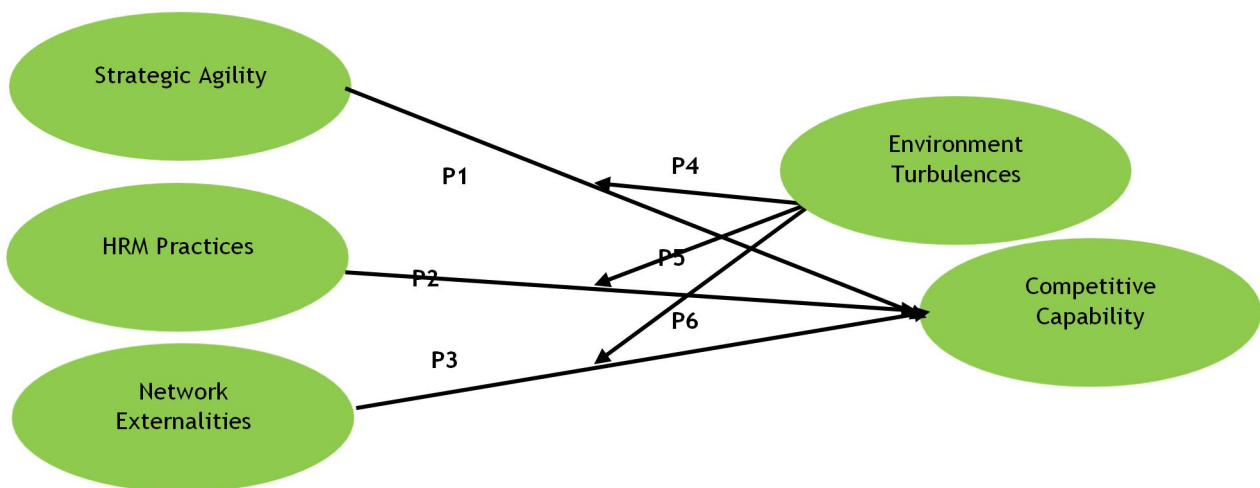
marketing context examining the mediating role of environment turbulence.

Proposition 4. Environmental turbulence positively moderates the relationship between strategic agility and competitive capability such that strategic agility is more strongly increase competitive capability in more turbulent environments of multilevel marketing organization.

Proposition 5. Environmental turbulence positively moderates the relationship between HRM Practices and competitive capability such that HRM Practices is more strongly increase competitive capability in more turbulent environments of multilevel marketing organization.

Proposition 6. Environmental turbulence positively moderates the relationship between network externalities and competitive capability such that network externalities is more strongly increase competitive capability in more turbulent environments of multilevel marketing organization.

### PROPOSED RESEARCH MODEL



### CONCLUSION

This current literature study has shown the important of competitive capability for multilevel marketing, and rising opportunity in environment turbulences with supported by Strategic Agility, HRM Practices, Network Externalities. The proposed variable already examining in various industry but multilevel marketing organization. From previous studies of multilevel marketing industry research focus on individual or independent distributor than corporate, or legality and ethical theme so researcher purpose to fill this gap in corporate strategic theme and focus to multilevel marketing firm for contributing industry growth.

The company's high competitive positions in terms of image and brand awareness, communication, the product assortment width, the intensity of the involvement programs (including the compensation plan, loyalty programs aimed at consultants), merchandising, the frequency of issuing catalogs, staff training, etc. are an important factor in providing the involvement of consultants.

(Busu, 2013) exploring the real potential of strategic management based on dynamic game theory decisions and showing that its capability to provide insight into competitive climate and strategy lies in the usefulness

and the strength of the game theory used in strategic management.

The competing or stakeholder teams will evaluate strategy, products, pricing, skills, technology and other challenges while taking the market environment competitive into consideration. (Schwarz, 2009).

An organization's competitive capacities can be interpreted as the ability to meet client expectations relative to its competitors' capacity. Multilevel marketing organization competitiveness is the organization ability to develop, maintain and expand the organization market share and profit (Thi Hang et al., 2019).

In the competition world, manufacturing and service companies try to improve their competitive capabilities to give their customers more value and to gain prominent areas in the competition with other entities (Hosseini & Sheikhi, 2012). The proposed model is subject to a further empirical testing using appropriate samples from MLM organizations in Indonesia.

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