

# Needed Competencies for Successful Chinese Multi-level Marketing (MLM) Business Distributors: A Case Study in China

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**Abstract:** The purposes of this research aimed to explore the major competencies of successful Chinese multi-level marketing (MLM) business distributors and to identify the challenges of the Chinese MLM business distributors in the view of the successful MLM distributors who worked for the Corporation X which is one of typical MLM business companies in China. The research questions are: 1. What are the major competencies for successful Chinese Multi-level Marketing business distributors as successful distributors? 2. What are the challenges of the Chinese MLM business distributors in the view of successful distributors? A qualitative approach with in-depth interviews and purposive sampling was used in this study. Data were collected from 14 MLM business distributors, all of whom had achieved middle level or above positions in Corporation X. The in-depth interviews led to the manual process of the voice data transcript as well as the data analysis and some quotations. For the first research question, the major finding of competencies were: 1) Self-motivation for undertaking MLM business as a career option; 2) Leadership in MLM China ; 3) Entrepreneurship; 4) Attitude of doing MLM business; 5) Knowledge of doing MLM business; 6) Skills of doing MLM business ; 7) Expertise of MLM Business; 8) Long-term people-orientation ; 9) Ethics of doing MLM business. For the second research question, the challenges of MLM business in China according to the interview were: 1) Trends of MLM business in China ; 2) Internal context of MLM business in China; 3) External environment of MLM business in China ; 4) Issue of personal development to lead others; 14) Risk of doing MLM business in China.

**Keywords:** Multi-level Marketing, MLM distributor, Competencies, Challenges, China

## Introduction

Direct selling is considered one of the most important retailing channels in most countries in the 21 Century. Direct selling provides opportunities for work including in production, supply chain management ,and retailing channels, offering consumers a better understanding of the benefits of the products on offer. There is now doubt that people are at the heart of multi-level marketing business (MLM). To be successful in this business, the abilities of the MLM distributor are essential because the survival of these companies depends on the ability of the distributors and their teams to make sales (Hossan, Ahammad & Ferdous, 2012). Those abilities are closely associated with the competencies of the MLM distributors.

It is generally accepted that competence consists of knowledge, skills, attitudes, experiences and contacts that enable good performance in a certain situation. However, researcher believes competencies are more than having knowledge, skills and attitudes; the ability to use them is required to achieve the desired results. Competencies are not just personal attributes. They are the result of the relationship between experience and practice, and interaction with external environment (Olle, Snell, & Carraccio, 2010, pp. 670-671).

In China, the MLM Business also plays a very important role to improve employability and the quality of life. MLM business has the advantages as the cost for an individual to start an independent direct selling business is typically very low. Distributors are individual business entrepreneurs, but most of them do not realize what competencies they should have as a business owners. Moreover, little actual research has been down regarding distributors' competency, especially in China. In this study, researcher considered Corporation X as a typical case to study MLM business in China. Corporation X is most famous and typical multinational direct-selling company that uses multi-level marketing techniques to sell a variety of products, primarily in health, beauty, and home care markets. Corporation X grew quickly in China from its market launched in 1995. In 1998, after abuses of illegal pyramid schemes led to riots, the Chinese government enacted a ban on all direct selling companies, including Corporation X. The Corporation X chose to adapt to China policy again, and in December 2006, it was granted the direct selling license by the China Ministry of Commerce. To qualify for it, the Corporation X (China) had to establish a new selling system and a new human resource system. Corporation X (China) had to make readjustments in its onus system, product pricing system, and compensation system and so on. The transformation of Corporation X reflects a unique Chinese MLM business environment.

The purposes of this research are to explore the competencies of the successful MLM business distributor. The result of this study is indented to provide a guideline to assist companies, organizations or individuals in the Direct Selling industry to develop their training program. The researcher also wants to identify the challenges of the Chinese MLM business distributors in the view of successful MLM distributors.

## Research Questions

The questions were asked of:

1. What are the major competencies for successful Chinese Multi-level Marketing business distributors as successful distributors?
2. What are the challenges of the Chinese MLM business distributors in the view of successful distributors?

## Review of Literature

### MLM concept

Multilevel marketing (MLM) which also known as “network marketing”, “direct selling”, “teamwork marketing”, “freedom enterprise” and, “structure marketing,” or “multi-level direct selling” (World Federation of Direct Selling Associations [WFDSA], 2000) provides an opportunity at minimum costs and time flexibility to achieve financial independence, if the individual manages to secure a loyal sales base. Since in network marketing distributor sells the products directly to the customer, it is also called direct marketing. As a result expenses of showroom, advertisement and other promotional programs are not needed for the manufacturer. In MLM system only one network team-

worker is allowed to marketing avoiding more middlemen. The following figure presented what MLM process is, and it avoids different middlemen. MLM process takes the help from only one channel of distribution which is known as “Net worker”.

According to Xardel (1993), Multi-level marketing (MLM) is a marketing strategy in which the sales force is compensated not only for sales they personally generate, but also for the sales of others they recruit, creating a down-line of distributors and a hierarchy of multiple levels of compensation.

According to 2011 annual report by the WFDSA, the top five countries—the United States, Japan, China, Korea and Brazil—generate over 60 percent of global direct selling retail sales. As 2011 annual report by the WFDSA shown, the global direct sales reached 153.7 billion dollars in 2011. There are 21 countries included in the review of billion dollar markets, and these countries comprise 90 percent of global direct selling retail sales. The top five countries—the United States, Japan, China, Korea and Brazil—generate over 60 percent of global direct selling retail sales.

Figure 1 illustrates, the United States led global retail direct sales at \$29.8 billion, with China ranking third at \$16.3 billion. Statistically, in developing countries and some other markets in Asia, the direct selling industry is growing. In other markets, the sales may be flat, but the number of direct sellers is growing.

Note: \* represents less than 2% of the global market



Figure 1. 2011 WFDSA ranking of Direct Selling's Billion Dollar Markets and their percent of the global market (WFDSA, 2012)

**MLM in China**

Direct selling accounted for a 1% share of overall value sales in retailing in China in 2011, and demonstrated great potential in the review period. The aggressive expansion of domestic players, as well as steady growth of international direct sellers, drove sales in the channel, in line with growing household incomes and the rising pursuit of personal wellbeing amongst Chinese consumers. Current value growth in direct selling was 16% in 2011; slightly outpacing the growth in 2010.



There is currently no formalized direct selling industry in China, so the WFDSA Global Research Sub-Committee has done secondary research to size the market. To that end, WFDSA (2012) says, in China, they saw an increase in sales and the number of salespeople.

WFDSA estimates that China's informal direct selling community generated \$16.3 billion in 2011, and grab 11 percent of the global direct selling market share. That was up 1 percent from 2010. Overall sales growth in China was up 16.2 percent, according to the WFDSA (2012), people started investing more time in direct selling, because they wanted to earn additional income. Every year they are growing steadily. Emerging markets like China enjoy consistent growth.

### **MLM distributors' performance**

Most of the research about performance has been based on the framework of Walker (Walker et al., 1977). It examines the effects of six categories on salesperson performance. These categories are: 1) Role, 2) Skill, 3) Motivation, 4) Personal factors, 5) Aptitude, 6) Organizational/environmental factors

The most important factor is the personal factor category, which includes items such as age, gender, weight, race, appearance, and education. Following personal factors in order of importance were skill and role variables. MLM distributor's **behavior** also is considered as a critical factor to influence their performance. Distributors' behavior includes sales force activities required in the sales process and activities related to the development of relationships with customers. Weitz and Bradford (1999) proposed a framework that linked the selling behavior to a salesperson's effectiveness. According to Weitz and Bradford (1999) the action and behavior of a salesperson during a sale can be very important to the quality interaction with the buyer.

MLM business is also called relationship selling, which consists of three dimensions: interaction intensity, mutual disclosure and co-operative intentions (Crosby et al., 1990). Interaction intensity refers to the level of interaction between the salesperson and the buyer. When interactions become more usual, the level of trust and understanding between parties develops. Mutual disclosure is the sharing of personal and organizational information. This information can be used to help to solve problems and to better understand the partner. Both interaction intensity and mutual disclosure can increase the exchange relationship. The final dimension is co-operative intentions. When a salesperson is adopting a cooperative selling it will lead to easier gain respect and trust from the buyer. The link between relationship selling behavior and performance is based on the development of trust between the salesperson and the buyer. Relationship selling behavior focuses on the development of personal relationships between the salesperson and the buyer. When there is a strong relationship between the salesperson and the buyer there will also be greater trust and communication.

### **Competencies Concept**

Competency is one of the hot topics in the world of human resources. Human resource specialists view a set of competencies as a tool to serve as a common language throughout the entire organization to consistently plan personnel, conduct performance reviews, and determine training programs (Kravetz, 2008). Competence is the ability to perform a specific task, action or function successfully. However, competencies are also context-specific, which means some competencies are more significant than others for a position. The degree or level of importance for each competency may vary depending on the job or task required of the

position. For instance, a MLM distributor and a cashier both work with customers but likely require a different capacity or facility for interpersonal skills.

Today, people think competencies are more than having knowledge, skills and attitudes; the ability to use them is required to achieve the desired results. Competencies are not just personal attributes. They are “the result of the relationship between experiences and practice” (Olle et al., 2010, pp. 670-671).

An interesting perspective of how to define individual competencies is recognizing them as a source of corporate success and in achieving planned strategies and business goals. Therefore, from the whole organization, components of competency (knowledge, skills, abilities, styles of working, personality, valued principles, interests) that “are used and developed in the work process lead to results that are compatible with the strategic goals of the organization” (Dubois, 1998, p. 66). In this way, the concept of individual competencies assumes the use of any characteristics of the employee both within a given position and in conjunction with the implementation of strategic goals. Moreover, it explains the use and development of competencies, which is important because otherwise the competencies may be reduced or become obsolete and become less useful at work.

Thach and Thompson (2007) believed there are a few leadership competencies that have been proven time and again as mandatory for effective leadership. These include the competency clusters of vision and goal-setting, interpersonal skills, self-knowledge and technical competence regarding the specifics of the business in which the leader works. In addition, commonly referenced competencies include: integrity/ honesty, communication, technical competence, diversity consciousness, developing others, results-orientation, change management, interpersonal skills, problem-solving, decision making, political savvy, strategic/visionary thinking, customer focus, business skills, team leadership, influence skills, conflict management, more recently emotional intelligence, social and environmental responsibility, depending on the culture of the organization even humor and innovation.

HRD personnel believe they can benefit a lot by employing competency concepts. A competency model allows individualized learning, emphasizes outcomes, provides flexible pathways for achieving the outcome, and makes clear what is to be achieved and the standards for measuring achievement.

### **Human Resource Concepts in Multi-Level Marketing**

Human resource development (HRD) is a complex process in which knowledge accumulates through training, education as well as work and life experiences. It has been defined as an attempt to improve personal effectiveness through a planned and deliberate learning process and a conscious and systematic process to control the development of human resources in the organization for the achievement of goals and strategies (Vicere, 2000). Development involves changing skills, knowledge, attitudes, or behavior. At the same time it should support the organization to achieve its strategic objectives and build a culture suitable for this direction (Vicere, 1997).

MLM has become an alternative to traditional employment because it is a flexible way to earn and increase household income. It is an excellent form of running a business because it creates opportunities for personal and career development. However, direct selling does not guarantee stability of employment. Distributors cooperate with manufacturers on the basis of civil law contracts, and the generated salary is based on commission and depends only on the distributor’s sales (Yukl, 2002). Therefore, those MLM distributor, who want to devote



in this industry and make a success of it stand in need of methods to maintain and develop competencies.

In competency building the central mechanism is to be networked with different knowledge sources, while in competency maintenance internal mechanisms of the organization are most important. In general, the dynamics of competency management varies according competence areas, but a common feature is “learning-by-doing” (Simons, 2000). Yukl (2002, pp. 78-90) identified three ways to acquire competencies, which all represent planned learning: 1) formal training (and education), 2) developmental activities (for example coaching, mentoring, and special assignments), and 3) self-help activities (for example reading books, viewing videos, listening audiotapes, and using interactive computer programs).

One of the key purposes of human resource development is to promote competencies that have an impact on the achievement of individual or organizational business strategic objectives, and especially on core competencies development. An equally important objective is to improve the competencies of all members in the organization, and as a result to be better prepared to meet current and future challenges. However, it is not easy to be sure whether any given development action leads to the desired outcome or not.

Spark and Schenk (2001) conducted a study to explain the effects of transformation leadership and investigate the effects of high-order motives in multilevel marketing organizations. They found despite Multilevel marketing organizations (MLMs) are a rapidly growing organizational type and remarkable recent growth, few studies have examined these unusual organizations, and none of these have addressed issues of transformational leadership. In MLM, the key leadership relationships are those between individual member distributors and the members who recruited them into the organization (i.e., their ‘sponsors’). Although sponsors are expected to provide leadership to the members they recruit, they possess no direct supervisory resulting—authority in an uncertain ‘quasi-leadership’ role. They used a sample of 736 female MLM members; the present study empirically tests an important explanatory component of transformational leadership theory: that belief in the higher purpose of one’s work is a mechanism through which transformational leadership achieves its positive outcomes on cohesion, satisfaction, effort, and performance. Their results offer support to the notion that transformational leadership indeed “transforms” followers by encouraging them to see the higher purposes in their work. Additionally, the results show positive relationships between belief in a higher purpose of one’s work and job satisfaction, unit cohesion, and effort.

Nga and Mun (2011) remarked the direct selling industry is experiencing phenomenal growth in Malaysia. With the real wages in Malaysia decreasing and increasing unemployment especially among fresh graduates there may be a greater incentive to explore multilevel marketing (MLM) to supplement their income and maintain their desired modern lifestyle. However, the perception of MLM has in the past been tainted by unscrupulous pyramid and Ponzi schemes which aims at quick profits and are not sustainable. They tried to investigate the influence of perception of MLM companies and agent attributes on the willingness to undertake MLM as a career among youth. They conducted a quantitative research by samples of 218 students pursuing business and management degrees at a private higher education institution in Klang Valley, Malaysia. Their finding indicated that all MLM company and agent attributes have a significant influence on the willingness to undertake MLM as a career option except MLM schemes. General agent attributes displayed a significant negative influence.

## Research Methodology

This project explored the important competencies of successful Chinese MLM business distributors and to identify the challenges of the Chinese MLM business distributors, so social constructivism was employed for this research. Data was gathered by the in-depth qualitative interviews. This study used purposive sampling, and conducted the interviews with 14 successful MLM distributors, three of whom earned their top-level position in MLM system of Corporation X and the rest are middle-level. All of them have their own MLM team. For the data analysis, researcher use transcribed recorded interviews; data was arranged into 14 categories; participants' answers were displayed in line numbers constructing some codes; and categories were defined. During the interview, researcher flew to five cities in China, *Guangzhou, Xiamen, Quanzhou, Kunming* and *Heshan* city. In these five different cities, before or after interview, researcher asked participant informants and their own teams' training activities or conference related to MLM business of Corporation X. The researcher had chances to take part in and observed different kinds of activities which included MLM business introduction, recruiting and training. All of those activities organized or participated by informants. Pictures and Video record helped the researcher review the context of those field works in data collection process. Researcher also used Video record and photography techniques to confirm and verify data collection in the field work as recommended by Denzin (2011).

### Trustworthiness

The researcher maintained the rigor of the research by emphasizing trustworthiness by using three methods to ensure the credibility of the study as follows:

1) During data collection, for reducing bias, the researcher took reflexive notes (Creswell, 2003) and following the guide of the peer advisor who knew all the processes of this research and conducted a pilot study at the early stages of this research. It included relevant data and information from the start of the preparation of the research proposal. Items were reviewed and updated until the end of the research project.

2) Triangulation refers to the process that different data sources of stakeholders will be checked and the researcher builds a coherent justification for them (Creswell, 2003, p. 196). The researcher has collected data from three different sources: field work and observation in different cities in China, interview from 14 successful MLM distributors and document review.

3) Authenticity refers to the informants giving real data. The researcher asked the informants to sign an informed consent form and agreement statement before they engaged in this study. Informants' confidentiality was maintained by using a number to represent each informant, rather than the real name. The final translation of interview transcripts was reviewed by a native English speaker who is an academic.

## Results and Discussions

According to data analysis, data was arranged into 14 categories, as table 1 shown. After an in-depth interview, the research offered systematic explanations according to the intended purposes. Thus, the researcher discusses the major findings, in accordance with the literature reviewed. Moreover, the researcher explores the two themes (competencies and challenges), according to what has been discussed in the interviews, and found in the literature.

**Table 1.** Research question and Main Categories

Research Questions	Name of Categories
1. What are the competencies for successful Chinese Multi-level Marketing business distributors in the view of the successful distributors?	1. Self-Motivation of undertaking MLM business as a career option 2. Leadership in MLM China 3. Entrepreneurship in MLM China 4. Attitude of doing MLM business 5. Knowledge of doing MLM business 6. Skills of doing MLM business 7. Experience of MLM Business 8. Long-term people-orientation. 9. Ethics of doing MLM business
2. What are the challenges of the Chinese MLM business distributors in the view of the successful distributors?	1. Trends of MLM business in China 2. Internal context of MLM Business in China 3. External environment of MLM Business in China 4. Issue of personal development to lead others 5. Risk of doing MLM business in China

### 1. Competencies for success in MLM China

There are different approaches to the division of competencies. In Taiwan, the term of competency has earned scholars' attention gradually. Hong (1997) divided job competencies into six groups: (1) professional capacity which was associated with knowledge and skills for certain occupations; (2) management capacity such as executing capacity, planning capacity, and time management; (3) interpersonal relationship skills such as communication and timework; (4) attitude, including initiative, enthusiasm, and ability to learn; (5) value systems such as decision making and time orientation; and (6) types of intelligence, such as problem solving.

Therefore, the researcher adopted the following definition of individual competencies for the purposes of this study: Individual competencies refers to a complex combination of knowledge, skills, understanding, values, attitudes and willingness to act which lead to effective and superior outcome in the world in a particular domain. The division of competencies is consistent with technical, conceptual, and interpersonal competencies, but their use depends on the level of position in particular area. This is reasonable because according to informants, people at the highest level of sales are characterized by more specific skills than those that are inexperienced and are starting their career. Hence, experience is one of important part of competencies, but researcher never considers "experience" as a separate individual competency of an MLM distributor.

To answer the first research question, individual competency of MLM distributors were sorted and classified into 3 main parts and 8 components. It is essentially a pyramid (see Figure 3) build on the foundation of basic required qualities and incorporating the types of a series of complicated skills and knowledge that can be acquired through learning, effort, and experience, but takes long time.



Figure 2. The Individual MLM Distributor Competency Diagram

Source: Created by Ada Lee, 2014

At the bottom, it is the first part of MLM distributor competency: motivation, attitude, ethic, knowledge, skills and experience. Those components are fundamental competency of doing MLM business, everyone who decides to take MLM business as a career option should possess, in order to survive in this industry.

*//...you need to insist your dream. Why do I say you insist your dream rather than insist your action? Many people still act but they forget their dream, which is a painful process...// (17-Line151-160)*

*//...Strong motivation to success: financial freedom, time freedom, and good life style...// (13-Line293-301)*

*//...The last pillar is positive attitude. Positive attitude is 95% matter to success, the only 5% is the know how to success. Only you have a positive attitude, then you can set your position to set goals. But of course when you set goals, you must focus on your goals. ...// (113-Line567-575)*

*//...All the workers for MLM are required to master comprehensive abilities mainly on intensive knowledge of the products, sales, cohesion of a team, speech, imitation, inheritance, one-to-one communication, general ability, all-out sprint, task accomplishment. ...// (18- Line 289-295)*

*//...You must think how to help your people the right way to do the business. ...// (113-Line448-450)*

*//... For eighteen years, I never gave up. Keep practicing and searching to be in my own leadership style (people oriented, 'big hands help small hands, or as strict as military.) ...// (14-Line 1197-1205, Line1230)*

The second part is leadership, which is a critical competency for being a successful MLM distributor. The essence of MLM determines that the success in MLM business is always about a team instead of individual, therefore, a successful MLM distributor is not just a salesman, he/she must be capable to build, lead and manage a team.

There are many management skills for MLM distributors that need to be acquired in order to build and lead a team. Leadership is a necessary competency for MLM distributors. All interviewees shared to be a successful MLM distributor means being a good team leader first. Leadership implies that adequate abilities are not only knowledge and psychomotor abilities, but also attitudes and cognitive skills such as problem solving (Nahavandi, 2006).



Bennis (2007) identified four leadership competencies: attention through vision; meaning through communication; trust through positioning; and developing positive self-worth. Attention through vision creates a vision for the organization and encourages people to work toward the vision by raising their self-confidence to perform. Meaning through communication is to communicate visions with others to make it clearly understood and accepted by others. Developing trust among personnel maintains organizational integrity, which leads to an effective organization. Leaders develop their positive self-worth by recognizing their strength and compensating for weakness, continuously developing and improving their skills, and recognizing the fit between their strengths and weaknesses, and the organization's needs. However, researcher and informants believe leadership for MLM distributors is more complicated.

*//...The industry needs the way of chain-reaction caused by original interaction from one another in your team. Therefore, only by constant learning can you improve yourself and strength your personal impact and leadership to be a winner. ...// (I8- Line 201-205)*

*// A firm's boss is for period of career while a leader is more about the value. In business filed, if you become a leader, it means you are greatly influential. In MLM, more leaders can be created because most of leaders are from grassroots. They would utilize their charisma rather than power to organize their team ...// (I7-Line269-278)//*

*//...I could realize the value as leader. When I engage in other career, MLM could be a personal sub-career to guide your friends to become rich collectively. I am fond of feeling that everyone possesses things collectively and is highly expected to complete dream by everyone....// (I7-Line25-32)*

At the top of this model, it is entrepreneurship. As it mentioned above, being independent business owner is biggest achievement in MLM business, which require people think and treat their MLM business as an entrepreneur. Informants in this research also agreed, that to being a successful MLM distributor is a long way. Actually, people may not easily consider those people who have earned a lot of money through doing MLM business as a successful MLM distributor. MLM practitioners believe a successful MLM distributor should be an entrepreneur, a respectful mentor, a kind coacher and a great leader. Entrepreneurship is a complex competency; it is a set of attitude, knowledge, skill and behaviors that is the final manifestation of all the innate, fundamental and acquired abilities discussed in the first two parts.

MLM businesses are promoted as a way for individuals who do not have adequate resources and/or skills to start up their own small business to pursue entrepreneurship (Kuntze, 2001). Only MLM distributors treat their work as their enterprise, they could have enough patience and tenacity to overcome all difficulties and get some achievement. In the above, the researcher presented the attitudes is quite important factor to leader MLM distributors to success. Because attitude towards the behavior and subjective norm are important predictors of behavioral intention (Ajzen, 1991), in general, the more positive the attitude towards a behavior, the stronger the intention the individuals have to perform that behavior (Armitage & Conner, 2001; Carr & Sequeria, 2007).

*//...Personally, MLM is a means of educational cause for grown-ups. Compared with other industries, MLM offers the employees more chance of training as well as practice. Moreover, frequent meetings are required, which enables one to have a change of mind and gains progress. To be specific, I plan to set up an intermediate agency providing service concerned MLM, hopefully, a platform both for X Company business and a guiding organization for all Chinese MLM enterprises. ...// (I8- Line 522-533)*

*//...I always wanted to own my own business back in college. At first, I find X Company kind of strange because it is not like ordinary business. Is a one-way street because you cannot go back to ordinary business once you choose X Company. But X Company is a very good way. It can give you good results and freedom which we always want...// (13-Line131-137)*

## 2. Challenges of MLM business

When people mentioned challenges, also talked about opportunity at the same time; because either challenges or opportunity comes from uncertainty of future. As long as research identify all necessary factors of a successful MLM business model, research also could identify those uncertain factor, which refers to challenges, as well as opportunity of doing MLM business in China. According to all information and analysis, also inspired by today's related research, the researcher is able to draw a figure to show a successful and sustainable MLM system, and present all necessary factors in one model, shown as in following:

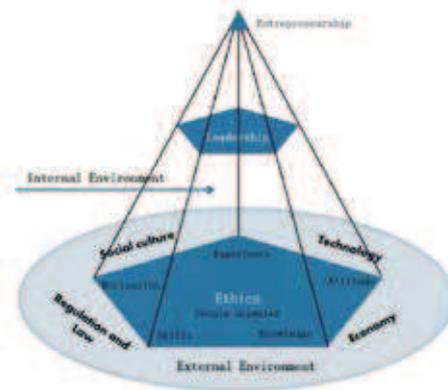


Figure 3. A successful and sustainable MLM system in China

Source: Created by Ada Lee, 2014

After the researcher had conducted a further analysis and study, researcher realized if a MLM distributor treats MLM business as his or her own business and career, the achieving entrepreneurship success should be not only focus on personal development, but also should get balance, consider, or even take advantage from external environment and internal environment. The challenge of doing MLM business is not only from individual, organization and MLM industry itself (internal factors), but also from society, economy, technology, culture and industry business law (external factors). The achievement of MLM business is the result of all those factors interacting with each other. It is not objective enough to only focus on individual competency, but ignore the joint effects of internal and external environment. Therefore, the model was modified to include more factors.

According to the philosophy of materialistic dialectics--the Marxian interpretation of reality that views matter as the sole subject of change and all change as the product of a constant conflict between opposites arising from the internal contradictions inherent in all events, ideas, and movements--the fundamental cause of the development of a thing lies in its internal causes, while external causes are the condition (Angus, 1989). External causes become operative through internal causes, but internal causes contribute the principal aspect.



In this study, individual competency is internal causes of doing MLM business successful, and all other factors that researcher added into figure 3 could be considered as external cause.

Generally speaking, the trend of the MLM business in China is flourishes. However, the fifteenth category, risk of doing MLM business, also reminds people, there exists a challenge as well as an opportunity for the Chinese underdeveloped MLM industry facing the influence from the economy, regulations and laws, social culture, and advancement of technology. Indeed, as China's economic boom unfolds in the mainland, MLM as a popular door-to-door sales model is sweeping the country, creating hundreds of thousands of jobs, increasing self-employment opportunities often for disadvantaged or poorly educated young women. But that growth has not come without controversy. Many MLM distributors in China have been accused of operating sophisticated pyramid schemes and other sales swindles. Even American companies operating in China have been accused of manipulating and misleading sales recruits.

There is no denying that some MLM distributors conduct MLM business in an improper and dishonorable way, and finally made negative outcome to the whole MLM industry and somehow harmed the society. Therefore China banned direct selling in 1998 (Mendizza, Nguyen, & Rosengren, 2004), because some people misused the MLM business model and its network marketing to influence people in a bad way and created society disorder.

The major challenges to the MLM distributors in general, also in China, can be summarized as 1) overcoming negative perceptions, 2) retaining existing MLM distributors, and 3) attracting new people (Harris, 2004; Sparks & Schenk, 2001). The main strategies utilized by MLM distributors and team leaders can be summarized as 1) environmental strategy: creating a positive social environment, 2) personal strategy: attracting entrepreneurial-oriented people, and 3) behavioral strategy: influencing MLM distributor's behaviors (Bhattacharya & Mehta, 2000; Pratt, 2000; Sparks & Schenk, 2001).

There are also influences of the social culture in the MLM business, though it does not directly affect the actions undertaken in conducting MLM business and the MLM distributor's performance. In this study, all informants agreed that Chinese social culture influence their strategy of MLM business. Korunka *et al.* (2003) use the "configurationally" approach to study the impact of the external environment. This describes the environment of business setup processes which include the micro-social (e.g. family restrictions, support) and macro-social aspects (e.g. social networks based on earlier occupational experiences). Strong environmental influences could result in a push condition (Korunka *et al.*, 2003). They defined this push condition as a specific strong necessity to start new business, "for instance, because of a previous job loss" (p. 27). They also suggest that the existence (or non-existence) of role models, both in the micro-social (parents as entrepreneurs) and macro-social context, is another social influence that attracts individuals to pursuing entrepreneurial careers.

MLM distributors are independent network marketing business owners (Biggart, (1989); Sparks & Schenk, (2001); their behaviors are also affected by both the micro-social and macro-social environments (Korunka *et al.*, 2003). The MLM distributors' macro-social environment is mainly composed of other MLM distributors (Pratt, (2000). In this macro-social environment, entrepreneurship has been broadly promoted (Biggart, 1989; Kuntze, 2001).

However, external environment is not just about sociocultural factors. Similar to the traditional consumer industries, people who conduct MLM business in China also faces challenges in regulatory uncertainty, competition (health or unfair), counterfeit products,

dealing with import duties and so on. To provide a conducive and sustainable operating environment in China for the companies operating in MLM industry, a series of reforms are required ranging from immediate short-term reforms in the nature of certain amendments in the existing Acts/policies to long-term measures of enacting a specific governing legislation for the sector. A separate policy framework for the MLM industry can clear the blurred lines between ethical industry players and impersonators and go a long way in regaining consumer confidence. This change is imperative, especially, when the industry is in double jeopardy at the moment – an erosion of faith and an identity crisis. WFDSA (2013) have highlighted below some of the possible solutions that can be considered by the Government/regulators in the coming future to benefit this industry.

1) Amendment of the Regulation on Administration of Direct Sales,

2) Need for a clear definition of “direct selling”, as well as MLM, “network marketing”, and “MLM business model” under a specific legislation in China. Moreover, given the numerous social as well as economic benefits of this specialized channel of distribution, MLM should be given a separate ‘Industry Status’.

3) Need for independent Governing Legislation. At present, direct selling falls under the purview of state legislation and is also governed by a large number of ministries/departments at the central and local levels. The multiplicity of regulatory bodies has resulted in multiple regulations and regulators governing this sector. These should be streamlined for the smooth performance and development of this promising sector.

4) Need for a relevant ministry be identified specifically for the direct selling industry, which may act as a single point of contact, and given that the sector is predominantly based on consumer interactions, the Ministry of Consumer Affairs may be appointed as the Nodal Ministry for the MLM industry.

The direct selling industry’s potential to reach a more than 20 billion USD size within few years driven by growth in consumer markets and increase in the penetration of direct selling to globally comparable levels may however be contingent on creating an enabling environment for the industry, and mitigation of some of the challenges it is facing today.

The internal and external environments interact with each other frequently. The performance of MLM distributors is influenced greatly by the internal environment, which refers to system, products, policy and procedures of specific MLM companies, plus the MLM sales team to which the MLM distributor belongs. Therefore, from an internal perspective, the challenges of doing MLM business emerge from MLM company itself and the MLM organizations or MLM team to which a MLM distributor chooses to work. Interestingly, the researcher found that, most of the Corporation X strategies are formulated and implemented on the basis of the external environment, such as customers’ needs, government regulation and laws, market forces, etc.

From individual perspectives, to processes all necessary competencies which the researcher has stated also would be a challenge to every MLM distributors. To develop personal expertise is always the main content of Human resource development, and therefore the individual viewpoint must be emphasized. It stresses the personal dimension in learning, i.e. that the individuals take responsibility for their learning, and that the organization, especially expertise-oriented ones, base their operations on personal expertise. Personal development is one essential function of Human Resource Development. From Human Resource Development perspective, the researcher gets an inspiration from Sakulkoo’s Balance Human Resource Development (BHRD) model (2010), seen as figure 5 BHRD was based on McLean’s model (1998) which considered more external environmental factors and

the Buddhism principle. Several spiritual scholars believed that Buddhism principle aims for human beings to be free from pain or misery, as well as aiming for a global socio-economic system to achieve sustainable development (Payutto & Muyzenberg, 2006).

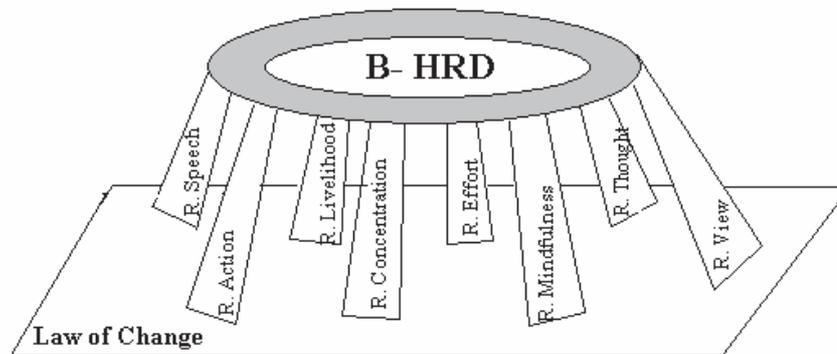


Figure 4 The Balanced Human Resource Development Concept

Source: Sakulkoo (2009)

The BHRD emphasizes under law of change, on individual development which includes performing eight values as follows: 1) right view 2) right thought 3) right speech 4) right action 5) right livelihood 6) right effort 7) right mindfulness, and 8) right concentration. Law of change here means there are three characteristics of existence: arising, persisting with alteration and then subsistence of passing way. Everything is non self. Everything is impermanent, which means nothing has been repeated for long; including body, feeling, perceptions, dispositions and consciousness (Chanchamnog, 2003, Dhammavaro, 2001). The BHRD concept could give a valuable inspiration to every MLM distributor in China, in their individual development; one would be consistently re-forming oneself and remaining sustainability.

## Implications

**#1 Implication for individual level.** These findings are of benefit to MLM practitioners when they wish to prepare themselves to be better distributor in China by using this competency model. If they lack any competency components, they should plan to have more practical training or theoretical training. Secondly, this research presented MLM business is a career option; therefore, the result of this study could be taken as a guideline of personal and career development.

**#2 Implication for group level.** Distributors could get inspired from the findings. They could improve their performance and their team performance by improve specific competency components. Managerial implication is that both parties (the distributor and the up line manager) should focus on supporting each other as they both get valuable economic benefits from each other. In this particular study, the research found the ethic is an important competency. As a result, MLM distributors should find a way to change their and their team-member's attitude, to develop more awareness of ethical issues during their practice, and regularize their behavior when they are selling, or recruiting, motivating their down line distributors. It is also critical for MLM companies to instill ethics and professionalism in the

conduct of their agents to enhance goodwill among potential customers and in networking activities. In addition, these findings have the most important practical implication for companies with the intention to enter China with a direct sale strategy; it can then function as guidance when implementing a MLM strategy in China. The last but not least, as this study has found that MLM is becoming a viable alternative career opportunity, higher educational institutions can complement this by incorporating some component of personal selling skills in the education curriculum for executive courses (e.g. MBA courses). Professional certification courses can be introduced to enhance the credibility of MLM agents.

**#3 The theoretical implication.** The theoretical implication from this study could be the successful and sustainable MLM system based on individual MLM distributor competency diagram. This system was based on individual MLM distributor competency diagram and developed to synthesize the new situation and knowledge in the area of MLM business in China. This research found out that competency of individual MLM distributor was an orientation rather than a strict standard. Individual needed successful competencies for successful MLM business distributor was defined and influenced not only by MLM business itself, but also by society, economy, technology, culture, and industry business law. This is partly because the nature of MLM business is about relationship between people and people, people and society, people and economy.

### **Limitation and Recommendations for Future Studies**

The study focused on challenges that MLM business and practitioners in China are facing currently and in the future. However, sometimes, challenges cannot easily explain as opportunities or threat. An example is SWOT analysis is widely taught and seemingly intuitive, but it has come under serious doubt. (Fehring, 2007). Whether something represents an opportunity or a threat may depend on subjective judgment. The line separating strengths from weaknesses or opportunities from threats is not always clear. Hence, the researcher recommends the future study could identify more uncertainty factors in the MLM business, and then find some possible solutions.

Secondly, this study only involves 14 informants from 5 different Chinese cities. This might lead to a misrepresentation of the MLM population in China. The fact that all informants are MLM practitioners, might have led them to answer all interview questions optimistically because they devoted themselves into MLM business and achieved success, and they highly believe in themselves and MLM companies which they chose to work for. The conclusions drawn might only be applicable for the specific sample group, thus a wider research on the subject needs to be conducted. An analysis regarding the differences in gender and age may show different results, as would studies using different methods and samples.

Thirdly, one of the main barriers a company is facing when entering the Chinese market are cultural differences. The Chinese culture is different from the rest of the world, which may cause different responses to its implementation strategy. These cultural values will become one of the main problems when introducing MLM in China. Therefore the researcher recommends the future study could evaluate which part and how Chinese cultural difference could influence Chinese distributors' behavior and performance. Comparisons and using case studies of successful foreign MLM business would improve the existing literature in this field. It would be even better if someone could carry out an in-depth study on the difference between the competencies for successful distributors in China and overseas

MLM business, such as those in Singapore, Japan, the USA, and Europe. These will help to generate more knowledge on competencies and challenges for global MLM business.

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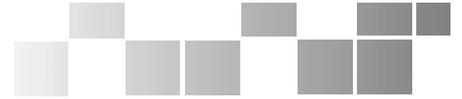
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