The Impact of Entrepreneurial Orientation on Channel Performance of MLM Sales Leaders: Perspective from Downlines in Malaysia

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Abstract:
Multi-Level Marketing (MLM) businesses have been treated as MLM sales leaders’ own businesses and they need to develop and manage by their own, especially creating new business opportunities to expand their social networks through recruiting more new downlines. Yarnell (1999) stated that the entrepreneur will be honored in the Twenty-First Century as the corporate executive was the hero of the Twentieth Century. The Twenty-First Century entrepreneur will seek the balance of lifestyle freedom, personal growth, and self-fulfillment. The situation reflected on MLM sales leaders and the successors for who seek for financial independence. An organization with individuals who prefer innovative activities, who are not risk averse, and who are proactive by exhibiting entrepreneurial orientation are in a more favorable position to compete in a rapidly changing business climate (Davis, Bell, G. Payne, & Kreiser, 2010). In such circumstance, the value of entrepreneurship among MLM sales leaders is essential to improve the channel performance of Multi-Level Marketing Organizations (MLMO). The basic of the study was to analyze the impact of entrepreneurial orientation on channel performance of selected MLMO in Malaysia. The study approached the entrepreneurship theories, particularly on the three dimensions of entrepreneurial orientation as the main theories and models of the study. The study used descriptive survey design and it adopted quantitative research method to test the hypothesis using inferential statistics. The data was collected from the selected downlines through the application of cluster sampling among 64 registered MLMO in Malaysia. There were 320 sets of well-structured questionnaires mailed to the selected downlines for the data collection and the final inputs were analyzed by the help of Statistical Package for Social Science (SPSS). The study practically contributed the insights towards delivering the importance of entrepreneurial orientation on channel performance of MLM sales leaders in Malaysia.

Keywords: Entrepreneurial orientation, channel performance, MLM sales leaders, downlines

1. Introduction

Minna, Brian, and David (2014) found that mentoring plays an essential part in reducing turnover and increasing job satisfaction early in sales career and the study revealed how mentoring influences outcome-based performance. MLM sales leaders are considered as “Heart and Soul” of Multi-Level Marketing Organizations (MLMO) by having important role to build rapport with their leading downlines. Multi-Level Marketing (MLM) businesses always treat downlines as entrepreneurs in managing their businesses as their own businesses. It means that MLMO required them to carry out their entrepreneurial activities to explore more business opportunities whether to develop the current business or creating new line of business.

Entrepreneurship could be perceived as profit-oriented thinking and acting via a personal interest towards new business creation of current companies (Gawel, 2012). MLM sales leaders are encouraged to add values into their businesses entrepreneurially; for instance, they should come out with the business plans by assisting their downlines for recruitment wise, presentation of products and services benefits, educating the advantages of reward schemes comprehensively, and so forth. At the same time, MLM sales leaders will face the risks because of taking the responsibility to bear the failure in business development.

In MLM business world, MLM sales leaders are the key persons to lead the downlines (sales force) to generate more good sales results and their sustainable performance is essential to lead MLMO to higher levels performance in terms of sales growth and profitability. However, channel performance was statistically measured as MLMO performance in this study. MLM sales leaders are anticipated to help improving his or her downlines’ performance (Sparks & Schenk,
try. business
new resources of raw materials. In this circumstance, MLM sales organizational values to firm performance. Entrepreneurs display the characteristics of
Lumpkin & Dess, 2001
Carland, Hoy &
new products, services, or
(70x78) found that individual innovative work behavior is
willingness to support creativity and experimentation with respect to the introduction of new products or services, and taking risk in modern business environments. Moreover, Aloulou and Fayolle (2005) studied the view of entrepreneurial orientation towards individual level and noticed that individual leaders of the entrepreneurial firm are tended to practice the characteristics of innovativeness, proactiveness, and risk-taking in order firms grow further and leading the markets.
Proactiveness can make an organization benefit from being the first mover as a source of growth by predicting and responding to future market demands and desires (Lumpkin & Dess, 1996). Proactiveness is related to the exploration of opportunities via entrepreneurial behavior in seeking new market niches ahead of competitors and exploration is riskier, but it offers potentially higher returns (Lumpkin & Dess, 2001). The importance of first movers' advantage as the best strategy to capitalize on a market opportunity due to their ability to capture remarkable profits and get a head start on establishing brand recognition. However, Penrose (1959) argued that entrepreneurial managers are essential to firms' growth due to their contribution of vision and imagination necessary to engage in opportunistic expansion and he was the first to emphasize the importance of an entrepreneur's vision and imagination to the performance of firms at individual level. In different definition, proactiveness is a search for opportunity, future perspective including presenting new products or services ahead of the competition and acting with the thought of future need to create alteration and shape the environment (Lumpkin & Dess, 2011). The intensity of proactiveness will reflect the firm's ability to outperform its rivals in capturing bigger part of market shares with limited resources (Zahr & Dess, 2001). To be effectively outshined in competitive markets, firms' performance must transit the responsibilities not only to top managers whereas MLM sales leaders, especially for the industry more related to people business with selling activities like MLM business.
Schumpeter (1934, 1942) was among the first to emphasize the role of innovation in the entrepreneurial process. Schumpeter (1942) outlined an economic process of "creation destruction" which it refers to the introduction of new products or services shifted resources away from existing firms and caused new firms to grow as well as wealth was created when existing market structures were disrupted. Innovativeness reflects a firm’s tendency to engage in and support new ideas, novelty, experimentation, and creative processes that may result in new products, services, or technological processes (Lumpkin and Dess, 1996). Lumpkin and Dess (2001) described entrepreneurial innovation as a willingness to support creativity and experimentation with respect to the introduction of new products or services, technological leadership, research and development (R & D), and new processes development. Some researchers (Dorenbosch, van Engen, & Verhagen, 2005; Ramamoorthy et al., 2005) found that individual innovative work behavior is positively contributing the organizational values to firm performance. Entrepreneurs display the characteristics of willingness to innovate which they have tendency to innovate new products or services, new methods of production, new processes or procedures of operation, and seeking new resources of raw materials. In this circumstance, MLM sales leaders act as entrepreneurs can innovatively introduce new mechanism such as interpersonal selling skills, communication styles, effective recruitment methods, finding new ways of selling and distributing the products, creating new advertising and marketing strategy to promote the products and services, and so forth to enhance their downlines' business growth.
The early entrepreneurship literature defined the concept of entrepreneurship with working for oneself (self-employment) which refers to entrepreneurs in taking risks with uncertainties than hired employees counting on wages. Lumpkin and Dess (1996) stated that firms with entrepreneurial orientation are tended to be taking risks such as incurring heavy debt or making large resource commitments, in the interest of obtaining high returns by seizing opportunities in marketplace. McClelland (1961) found that entrepreneurs tend to be more willing to behave in taking risks than non-entrepreneurs. Not only in-home countries, entrepreneurs will often face more risks in international
markets (Zhang, Ma, & Wang, 2012) and need to pursue opportunities with a reasonable risk through venturing unknown or unfamiliar markets, continuous investment, finance, and growth (Baird & Thomas, 1985). In MLM business, MLM sales leaders have mentality by treating their job as their own businesses, so they have higher level of propensity to absorb risks compared to other employees working in different type of organizations such as they will be paid for fixed monthly salary. Basically, risk will be related to uncertainty, especially in making any difficult decisions among the leaders. In other words, their leadership is concerned with taking decisions against inadequate information, constant changing environments, and complex external conditions. In these circumstances, risk is unavoidable and the ability of leaders to foresee or understand risk becomes a critical attribute of an effective leaders. Risk taking is an action taken which firms bear the responsibilities without knowing the future possible results (Dess & Lumpkin, 2005). Pournasr (2011) summarized that risk taking indicates the willingness of the organization members to take risks and endure failure. In this situation, MLM sales leaders will be more willing to take risks for such fluctuating businesses, especially for those are working as full-time and treat their job as their own admired businesses. For instance, MLM sales leaders will be absorbing external risks such as their own bad corporate image will jeopardize the sales growth and downlines will shift to other MLM without prior notice.

1.2. Channel Performance

Organizational performance is defined as an outcome of business operations, practices, and activities. By the way, in MLMO context, MLM sales leaders have more responsibilities than management team to enhance the organizational performance via their prominence in guiding, developing, and recruiting downlines as primary resources towards achieving financial freedom. Once the MLM sales leaders performed well and they will eventually meet their expectation and job satisfaction in terms of remuneration, benefits, promotion, work condition, supervision, organizational practices, and relationship with co-workers (Misener et al., 1996).

Channel performance is practically related to the economic benefits context which refers to the extent to which relationship between the downlines and uplines is productive (good personal sales), profitable (good one’s network sales), and rewarding (resulting in a broader network of downlines) (Skarmeas et al., 2002; Mswell-Mbanga, 2001, Bucklin & Sengupta, 1993).

The environment of good personal sales reflects to the interactive and supportive business relationship between the downlines and their MLM sales leaders which to ensure both parties always on the right track towards achieving business goals and financial freedom, such as successfully achieved individual sales target continuously. MLM sales leaders also need to increase territory market share to obtain the optimal profits through the concept of good one’s network sales, such as making effective presentations to downlines and prospects in recruitment activities. Subsequently, MLM sales leaders will be rewarded based on their efforts and effectiveness relationships in building broader network of downlines. Indeed, the study of channel performance in MLM business context has limited attention from scholars (Salciuviene, Reardon, & Auruskeviciene, 2011) and this study is expected to examine the influence between channel performance of MLM sales leaders and entrepreneurial orientation.

1.3. Statement of the Problem

With pursuing entrepreneurial orientation, an organization has better chance to rebuild its activities through introducing and marketing new products into new markets, implementing new processes, and shifting to any other better business strategic plans. The concept of entrepreneurial orientation can be applied to both organizations and individuals and most of the literature supports a positive relationship between entrepreneurial orientation and firm performance (Robinson & Stubberud, 2014). Covin and Slevin (1988) forwarded the concept that there is a relationship between a top manager’s entrepreneurial orientation and firm performance. The suggested of measurement for entrepreneurial style through the degree of managers favor innovative activities are inclined to take business-related risks and compete proactively with other firms. In this regard, MLM sales leaders are tended to achieve higher levels performance in their career paths will be proactively pursue the business activities and leading the markets, favoring innovative business activities through supporting creativity such as introducing new products, services, processes, marketing strategies, and so forth; they also need to be more willingness to engage in risk-taking behaviors than non-entrepreneurs. In short, three dimensions of entrepreneurial orientation such as proactiveness, innovativeness, and risk taking are potentially related to the channel performance of MLM sales leaders. In this regard, this study is imperatively to seek for the impacts of entrepreneurial orientation on the channel performance of MLM sales leaders in MLM business of Malaysia.

2. Theoretical Framework

Through the review of the relevant literature, this study has theoretically framed entrepreneurial orientation which consists of proactiveness, innovativeness, and risk-taking as three independent variables. Dependent variable of this study is channel performance and how it has been influenced by entrepreneurial orientation. Utilizing Covin and Slevin’s (1989) conceptual framework, these three entrepreneurial orientations or dimensions (proactiveness, innovativeness, and risk-taking) are considered as a partial of organizational culture as enlightened by top managers and allow firms have a better chance to strategically rebuild their business activities by creating new products, penetrating new markets, and implementing new processes (Bratnicki, 2008). Obviously, the importance of entrepreneurship imperatively to be instilled into the practice of MLM sales leaders since they need to manage MLM business as their own businesses.
3. Research Design

In this positivist research, the structured questionnaires were used to collect the data and it is the most applicable in dealing with large number of respondents. Thus, the study was carried out by selecting 64 MLMO which registered with Direct Sales Association of Malaysia (DSAM, 2013). Data was collected through mailing 320 sets of structured questionnaires equally to the selected 64 MLMO. Data analysis was completed with the assistance of Statistical Package for Social Science (SPSS) software, Version 20. The respondents are identified as direct downlines of MLM sales leaders for who certainly have the credibility to present their accurate inputs to justify the behaviors or characteristics of their own MLM sales leaders.

For this research, probability sampling design was approached whereby cluster sampling method was pursued due to data gathered from the large population (MLMO downlines consist of different structure and level). As in this case of the study, cluster sampling is more appropriate because of this sampling method able to divide the sampling population into groups or levels, the immediate downlines to the MLM sales leaders, whoever on the best position to contribute the requisite information.

In 1983, Miller mostly discussed entrepreneurial orientation on firm level performance if it continuously behaves proactively, displays product innovation, and takes risk in modern business environments. However, there were many researchers suggested that the values of entrepreneurial orientation also could be imposed on individual level than firm level (Carland, Hoy & Carland 1988; Gartner 1985; Stewart 1996) to enhance firm level performance. Each item is accompanied by a five-point scale from which ranging from ‘1 = strongly disagree’ to ‘5 = strongly agree’.

4. Results and Discussions

4.1. Descriptive Analysis

The results of descriptive analysis were shown in Table 1 below.

<table>
<thead>
<tr>
<th>Entrepreneurial Orientation</th>
<th>1 F (%)</th>
<th>2 F (%)</th>
<th>3 F (%)</th>
<th>4 F (%)</th>
<th>5 F (%)</th>
<th>Mean</th>
<th>Std. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proactiveness</td>
<td>0 (0.0)</td>
<td>0 (0.0)</td>
<td>14 (6.7)</td>
<td>131 (62.4)</td>
<td>65 (30.9)</td>
<td>4.33</td>
<td>.52</td>
</tr>
<tr>
<td>Innovativeness</td>
<td>0 (0.0)</td>
<td>0 (0.0)</td>
<td>19 (9.0)</td>
<td>122 (58.1)</td>
<td>69 (32.9)</td>
<td>4.34</td>
<td>.54</td>
</tr>
<tr>
<td>Risk-Taking</td>
<td>0 (0.0)</td>
<td>0 (0.0)</td>
<td>18 (8.6)</td>
<td>120 (57.1)</td>
<td>72 (34.3)</td>
<td>4.34</td>
<td>.55</td>
</tr>
</tbody>
</table>

Table 1: Descriptive Statistics on Entrepreneurial Orientation (N=210)

Indicator: 1 = Strongly Disagree, 2 = Disagree, 3 = either Agree or Disagree, 4 = Agree, 5 = Strongly Agree

From the Table 1, the mean scores of proactiveness, innovativeness, and risk-taking were recorded as 4.33, 4.34, and 4.34 respectively. All these mean scores were above average and indicating that there were entrepreneurial capabilities in building career among MLM sales leaders. For instance, MLM sales leaders displayed their initiative, characteristic in creating new strategies and problem-solving skills to resolve the issues for themselves (or even to their downlines) and need to have the decision-making capability in any uncertainties and risky situation.

Table 1 shows that there were no respondents strongly disagree and disagree pertaining to proactiveness. 14 (6.7%) respondents were either agreed or disagreed that proactiveness is important to MLM sales leaders, 131 (62.4%) were agreed while 35 (30.9%) were strongly agreed with proactiveness is essentially to enhance channel performance. The mean score was 4.33 with a standard deviation of 0.52. This implied that majority of the respondents believed that MLM sales leaders need to own the ability to recognize and purse opportunities well ahead of its competitors despite the resource limitations (Zahra & Dess, 2001).

None of the respondents strongly disagreed and disagreed that innovativeness has no positive impact to channel performance. There were 19 (9.0%) respondents stayed neutral, 122 (58.1%) agreed, and 69 (32.9%) strongly agreed with innovativeness is crucially to enhance the channel performance. The mean score was 4.34 with a standard deviation of 0.54 and it showed that the mean was greater than the average mean score of 2.5 revealing that more than a half of the respondents were agreed with the positive relationship between innovativeness and channel performance. MLM sales leaders are encouraged to support new ideas, novelty, experimentation, and creative processes that may result in new products, services, and technological processes (Lumpkin & Dess, 1996).

The mean score of risk-taking was recorded as 4.34 with a standard deviation of 0.55. There were no respondents strongly disagree and disagree with risk-taking. Obviously, this showed that majority of the respondents have faith in MLM
sales leaders should bear the responsibilities without knowing the future possible results (Dess & Lumpkin, 2005). That was the reason of risk-taking considered as positive action taken should be practiced by MLM sales leaders to achieve the channel performance. The overall levels of channel performance as a result of entrepreneurial orientation shown in Figure 1.

Figure 1: Entrepreneurial Orientation and Channel Performance

Figure 1 shows that 87% of the respondents agreed that MLM sales leaders equipped with entrepreneurial orientation are potentially to increase the channel performance of MLMO in Malaysia. Meanwhile, 13% of the respondents disagreed with entrepreneurial orientation is not applied to the performance of MLM sales leaders. The implication of statistics revealed that majority of respondents believed that MLM sales leaders should own entrepreneurship in exploring MLM businesses to achieve channel performance.

4.2. Hypothesis Testing Results

The results of the correlation analysis of variables are summarized in Table 2. To test the hypotheses, the multiple regression analyses was tested to determine the variance of channel performance explained by the entrepreneurial orientation as antecedent factors.

4.2.1. Correlation Analysis

Entrepreneurial orientation is significantly correlated with channel performance as the results show that proactiveness (measured by the PRO, $r = 0.56$, $n = 210$, $p < 0.01$), innovativeness (measured by the INNO, $r = 0.53$, $n = 210$, $p < 0.01$), and risk-taking (measured by the RT, $r = 0.57$, $n = 210$, $p < 0.01$). This significant relationship shows that there was a moderately strong, positive correlation between entrepreneurial orientation and channel performance, with high levels of entrepreneurial orientation associated with high levels of channel performance.

<table>
<thead>
<tr>
<th>Variables</th>
<th>Mean</th>
<th>St. D</th>
<th>CP</th>
<th>PRO</th>
<th>INNO</th>
<th>RT</th>
</tr>
</thead>
<tbody>
<tr>
<td>CP</td>
<td>4.40</td>
<td>0.59</td>
<td>1</td>
<td>0.557**</td>
<td>0.531**</td>
<td>0.574**</td>
</tr>
<tr>
<td>PRO</td>
<td>4.33</td>
<td>0.52</td>
<td>0.557**</td>
<td>1</td>
<td>0.897**</td>
<td>0.857**</td>
</tr>
<tr>
<td>INNO</td>
<td>4.34</td>
<td>0.54</td>
<td>0.531**</td>
<td>0.897**</td>
<td>1</td>
<td>0.883**</td>
</tr>
<tr>
<td>RT</td>
<td>4.34</td>
<td>0.55</td>
<td>0.574**</td>
<td>0.857**</td>
<td>0.883**</td>
<td>1</td>
</tr>
</tbody>
</table>

Table 2: Correlation Analysis

* Correlation is significant at the 0.01 level (2-tailed)

** CP = Channel Performance, PRO = Proactiveness, INNO = Innovativeness, RT = Risk-Taking

4.3. Multiple Regression Analysis

The results are summarized in Table 3 and Hypotheses H1 postulated relationship between entrepreneurial orientation and the channel performance as listed below:

- Hypothesis 1: There is a positive relationship between entrepreneurial orientation and the channel performance.

4.3.1. Corollary Hypotheses

- Hypothesis 1.1: MLM sales leaders with the proactiveness are positively related to the channel performance.
- Hypothesis 1.2: MLM sales leaders with the innovativeness are positively related to the channel performance.
- Hypothesis 1.3: MLM sales leaders with the propensity of risk-taking are positively related to the channel performance.
The regression explains 34 percent of the variance in the entrepreneurial orientation on the channel performance. It is highly significant at the 0.001 level. The results indicate that innovativeness (INNO) was not significantly related to channel performance, meanwhile proactiveness (PRO) and risk-taking (RT) were positively significant related to channel performance (PRO, beta = 0.28, p<0.05; RT, beta = 0.39, p<0.01). Therefore, H1.1 and H1.3 are accepted while H1.2 was not supported.

<table>
<thead>
<tr>
<th>Entrepreneurial Orientation</th>
<th>PRO</th>
<th>INNO</th>
<th>RT</th>
</tr>
</thead>
<tbody>
<tr>
<td>CP</td>
<td>0.28*</td>
<td>-0.07</td>
<td>0.39**</td>
</tr>
<tr>
<td>R</td>
<td>0.59</td>
<td></td>
<td></td>
</tr>
<tr>
<td>R Square</td>
<td>0.35</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjusted R Square</td>
<td>0.34</td>
<td></td>
<td></td>
</tr>
<tr>
<td>F</td>
<td>36.38***</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 3: The Entrepreneurial Orientation to Channel Performance

Note: Significant Levels: ***P<0.001; **P<0.01; *P<0.05; +P<0.10

CP = Channel Performance, PRO = Proactiveness, INNO = Innovativeness, RT = Risk-Taking

5. Conclusions and Recommendations

Prior theory and research (Covin & Slevin, 1989; Lumpkin & Dess, 1996; Miller & Friesen, 1983) indicates that an entrepreneurial orientation is a key ingredient for organizational success and connected to increased performance (Zahra & Covin, 1995). Top managers are often the key players in networks to support entrepreneurial and strategic action (Ireland, Hitt, Camp, & Sexton, 2001). Furthermore, Bratnicki (2008) stated that top managers should be equipped with the traits of proactiveness, innovativeness, and risk-taking to allow firms have a better chance to strategically rebuild and improve their business activities. Entrepreneurship education has a positive impact on the employment performance (Li & Liu, 2011) and the study from Istanbul (Korhan, Ali, & Firat, 2013) also shows that entrepreneurship gives positive impact empirically to top managements in enhancing the firms’ financial performance. In MLM business context, the role of top managers as mentioned are mostly referred or replaced by MLM sales leaders for who will be leading the MLMO to higher levels performance. Based on the results of this study, proactiveness and risk-taking are only positively associated to the channel performance.

In this study, MLM sales leaders with achieving channel performance are anticipated once they are pursuing the entrepreneurial characteristics (proactiveness, innovativeness, and risk-taking) in leading their downlines. Unexpectedly, innovativeness has no significant relationship with the channel performance. It happened might due to MLM sales leaders are not comprehensively to bring out the innovativeness attitude derived from entrepreneurial orientation. Perhaps, MLMO should instill the value of innovativeness among MLM sales leaders includes the ability of generating ideas that will culminate in the production of new products, services, technologies, and processes to enhance the channel performance. In contrast, MLM sales leaders in this study could potentially indicate proactive downlines stance towards opportunities, encouragement of initiative, competitive aggressiveness, and confidence in pursuing enhanced competitiveness (Morris, 1998), also, made their downlines to be determined and take the challenges for risky projects or steps with uncertain outcomes (Margarietha, 2012).

6. References


