

**THE INFLUENCE OF STRATEGIC
ORIENTATION, ADAPTIVE MARKETING
CAPABILITY AND SUSTAINABLE
COMPETITIVE ADVANTAGE ON
BUSINESS PERFORMANCE OF
MULTI-LEVEL MARKETING
COMPANIES IN
MALAYSIA**

LEE SIEW KEONG

ASIA e UNIVERSITY

2023

THE INFLUENCE OF STRATEGIC ORIENTATION, ADAPTIVE
MARKETING CAPABILITY AND SUSTAINABLE COMPETITIVE
ADVANTAGEON BUSINESS
PERFORMANCE OF MULTI-LEVEL
MARKETING COMPANIES
IN MALAYSIA

LEE SIEW KEONG

A Thesis Submitted to Asia e University in
Fulfilment of the Requirements for the
Degree of Doctor of Philosophy

August 2023

ABSTRACT

Many multi-level marketing (MLM) companies in Malaysia have failed to maintain sustainability and experienced a high rate of attrition due to their inability to sustain. Despite all support from the Malaysia Ministry of Domestic Trade and Consumer Affairs and Direct Selling Association Malaysia, the level of sustainability of MLM firms in Malaysia is still low. This study investigates the impact of strategic orientations (market, learning, intellectual capital, technology) on sustainable competitive advantage (SCA) through adaptive marketing capabilities (AMC) among Malaysian MLM companies. A quantitative approach is employed in this study. The founders, CEOs, COOs, CMOs, General Managers, or equivalent positions of MLM firms are surveyed to gather data. A total of one hundred and two responses were collected and subsequently subjected to analysis. The SmartPLS software was employed to assess the research models and test the proposed hypotheses. The empirical findings indicate robust evidence for the model's explanatory power, which shows that it accounts for 71 percent of the variance in AMC and 77.3% in SCA. Market orientation has a weak relationship with SCA but has a positive relationship with SCA through AMC's full mediating effect. No mediation is evident between learning orientation and SCA; instead, a direct inverse connection between learning orientation and SCA is observed. Furthermore, technology orientation exerts a direct positive influence on SCA. AMC serves as a partial mediator, whereas intellectual capital does not exhibit any mediating effect through AMC but rather maintains a direct positive association with SCA. In combination, market, learning, intellectual capital, and technology orientation possess similar explanatory power in accounting for the variability in AMC. As a result, when these factors are combined, they contribute more to enhancing AMC and SCA. This study has highlighted the understanding and challenges of applying strategic orientation-capabilities-SCA relationship link concepts to the literature of the MLM sector and significantly contribute to the field of strategic marketing by advancing knowledge and understanding in areas such as strategic orientation, AMC and SCA. The ability of Malaysia's MLM firms to address the obstacles and effectively utilize their resources and capabilities to improve firm capability hinges on the management's competence in creating and deploying a suitable blend of essential resources.

Keywords: Multi-level Marketing, Sustainable Competitive Advantage, strategic orientation, Resource-Based View, Dynamic Capabilities, Adaptive Marketing Capabilities, Malaysia.

APPROVAL

This is to certify that this thesis conforms to acceptable of scholarly presentation and is fully adequate, in quality and scope, for the fulfilment of the requirements for the degree of Doctor of Philosophy

The student has been supervised by: **Associate Professor Dr. Sheila Cheng**

Assistant Professor Dr. Omkar Dastane

The thesis has been examined and endorsed by:

Professor Dr. Juhary Ali

Asia e University

Examiner 1

Associate Professor Datin Dr. Nor Liza Abdullah

UKM

Examiner 2

This thesis was submitted to Asia e University and is accepted as fulfilment of the requirements for the degree of Doctor of Philosophy.



Professor Dr Siow Heng Loke

Asia e University

Chairman, Examination Committee

(26 July 2023)

DECLARATION

I hereby declare that the thesis submitted in fulfilment of the PhD degree is my own work and that all contributions from any other persons or sources are properly and duly cited. I further declare that the material has not been submitted either in whole or in part, for a degree at this or any other university. In making this declaration, I understand and acknowledge any breaches in this declaration constitute academic misconduct, which may result in my expulsion from the programme and/or exclusion from the award of the degree.

Name: Lee Siew Keong

A handwritten signature in black ink, appearing to read 'L. S. Keong', written in a cursive style.

Signature of Candidate:

Date: 22 August 2023

ACKNOWLEDGEMENT

So grateful to have completed my thesis with the unwavering support and encouragement of so many amazing people and organizations. Dreams really do come true!

I would like to extend my utmost appreciation to the late Associate Prof. Dr. Wan Sabri Wan Hussin for his invaluable contribution as my supervisor, which has enabled the successful completion of this study. He not only offered valuable advice to me but also inspired me to give my best. This incentivizes me to strive harder towards ensuring that this research yields significant benefits for myself, my organization, and all those who are involved in the direct selling sector. I am committed to driving innovation and delivering valuable insights to businesses in need.

To my principal supervisor, Associate Professor Dr. Sheila Cheng, I would like to use this moment to express my sincere gratitude. I consider her to be a highly empathetic and compassionate leader. Her opinions, suggestions, remarks, and criticism have inspired me to successfully navigate the challenges of this PhD path. Her faith in my talents and her confidence in me have also greatly aided my growth as a student and researcher.

My deepest gratitude is extended to my co-supervisor, Dr. Omkar Dastane, who has faithfully supported my work over the years by sharing his ideas and encouraging me. As a co-supervisor, he is very motivating and helpful, inspiring me to give my best. Furthermore, he has consistently demonstrated a cordial and encouraging demeanor towards my endeavors and challenges.

I respectfully and sincerely thank everyone who has helped me elevate my ideas above the level of simplicity and turn them into something solid. Additionally, I want to convey my deep appreciation to all my friends who helped me with this study and

were very helpful, including Prof. Siow, Ms. Lee Lee, Prof. Dr. Azizan Ahmad, and my wonderful business partner Sam Kho and my wife Joni Lee for supporting me despite their hectic schedules.

Thank you from the bottom of my heart, finally, to my close friends who have always been willing to listen to my grouching during difficult times, share mirth during happy times, and lend a hand when it was most needed.

TABLE OF CONTENTS

ABSTRACT	ii
APPROVAL	iii
DECLARATION	iv
ACKNOWLEDGEMENT	v
TABLE OF CONTENTS	vii
LIST OF TABLES	xi
LIST OF FIGURES	xi
CHAPTER 1 INTRODUCTION	1
1.0 Chapter Overview	1
1.1 Background of the Research	1
1.2 Multilevel Marketing in Malaysia	4
1.3 MLM Legitimacy	11
1.4 The Problem Statement	15
1.5 Significance of the Study	17
1.6 Research Objectives	19
1.7 Research Questions	20
1.8 Scope of the Study	21
1.9 Key Assumptions	21
1.10 Definition of Key Terms	22
1.11 Organization of the Study	23
1.12 Chapter Summary	24
CHAPTER 2 REVIEW OF LITERATURE	25
2.0 Chapter Overview	25
2.1 Multilevel Marketing Milestone	25
2.2 Theoretical Underpinnings	28
2.2.1 Resource-based View	28
2.2.2 Resources and Capabilities Classification	30
2.2.3 Dynamic Capabilities	33
2.2.4 A New Way of Thinking of Necessary Capabilities	37
2.3 Adaptive Marketing Capabilities	39
2.3.1 From Static to Adaptive Marketing Capabilities	41
2.3.2 Vigilant Market Capability	42
2.3.3 Adaptive Market Experimentation Capability	42
2.3.4 Open Marketing Capability	43
2.4 Strategic Orientation	45
2.4.1 Market Orientation	52
2.4.2 Learning Orientation	57
2.4.3 Intellectual Capital Orientation	60
2.4.4 Technology Orientation	64
2.5 Sustainable Competitive Advantage	65
2.6 Research Gaps	70
2.6.1 Selection of Strategic Orientation Factors:	70
2.6.2 Selection of Mediator –Adaptive Marketing Capabilities	71
2.7 Conceptual Framework	74
2.8 Hypothesis Development	75

2.8.1	Market Orientation and Sustainable Competitive Advantage Link	75
2.8.2	Learning Orientation and Sustainable Competitive Advantage Link	78
2.8.3	Intellectual Capital Orientation and Sustainable Competitive Advantage Link	79
2.8.4	Technology Orientation and Sustainable Competitive Advantage Link	80
2.8.5	Market Orientation, Adaptive Marketing Capabilities and Sustainable Competitive Advantage Link	81
2.8.6	Learning Orientation, Adaptive Marketing Capabilities and Sustainable Competitive Advantage Link	85
2.8.7	Intellectual Capital Orientation, Adaptive Marketing Capabilities and Sustainable Competitive Advantage Link	88
2.8.8	Technology Orientation, Adaptive Marketing Capabilities and Sustainable Competitive Advantage Link	91
2.9	Summary of Hypotheses	94
2.10	Chapter Summary	95
CHAPTER 3 METHODOLOGY		96
3.0	Chapter Overview	96
3.1	Research Design	96
3.1.1	Research Philosophies	96
3.1.2	Strategy of Inquiry	99
3.1.3	Research Methods	101
3.2	Data Collection Procedure	103
3.2.1	Primary Data	104
	3.2.1.1 Online Survey	104
	3.2.1.2 Self-Administration	106
3.2.2	Secondary Data	106
3.3	Sampling	107
3.3.1	Sample Design	107
3.3.2	Sample Size	109
3.4	Questionnaire Development	111
3.4.1	Expert Evaluation and Pre-test	113
3.4.2	Measures of Market Orientations	115
3.4.3	Measures of Learning Orientation	116
3.4.4	Measures of Intellectual Capital Orientation	117
3.4.5	Measures of Technology Orientation	118
3.4.6	Measures of Adaptive Marketing Capabilities	119
3.4.7	Measures of Sustainable Competitive Advantage	121
3.4.8	Measures of Financial Performance	121
3.4.9	Measures of Non-Financial Performance	122
3.5	Data Analysis Procedures	122
3.5.1	Structural Equation Modelling (SEM)	123
3.5.2	Partial Least Squares (PLS)	125
3.5.3	Reasons for Using PLS	126
3.5.4	Reflective and Formative Construct Specification	127

3.5.5	Construct Specification	132
3.5.6	Model Evaluation	134
3.5.6.1	Evaluation of Measurement Model (Outer Model)	134
3.5.6.2	Evaluation of Structural Model (Inner Model)	136
3.6	Ethical Considerations	137
3.7	Chapter Summary	137
CHAPTER 4	RESULTS AND DISCUSSION	138
4.0	Chapter Overview	138
4.1	Population and Sampling Size	138
4.2	Data Collection and Sample	138
4.3	Respondent Characteristics	140
4.4	Preliminary Evaluation	142
4.5	Data Screening	142
4.6	Constructs Operationalisation	145
4.7	Measurement Model Assessment	146
4.7.1	Indicator Reliability	150
4.7.2	Internal Consistency	153
4.7.3	Convergent Validity	153
4.7.4	Discriminant Validity	154
4.7.5	Quality of the Measurement Model	155
4.7.6	Assessment of the Formative Hierarchical Component Model	156
4.7.6.1	Indicator validity	156
4.7.6.2	Multicollinearity	157
4.8	Assessment of the Structural Model (Inner Model)	159
4.8.1	Step 1: Assessment of Collinearity	161
4.8.2	Step 2: Assessment of Significance and Relevance of the Path Coefficients	162
4.8.3	Step 3: Assessment of Coefficient of Determination (R ²)	165
4.8.4	Step 4: Assessment of f squared (f ²)	165
4.8.5	Step 5: Assessment of Predictive Relevance Q ²	166
4.9	Evaluation of Mediating Effects	168
4.9.1	Size of Mediating Effects	171
4.10	Summary of Results for All Hypothesised Relationships	172
4.11	Chapter Summary	176
CHAPTER 5	CONCLUSION, IMPLICATION AND RECOMMENDATIONS	178
5.0	Chapter Overview	178
5.1	Market Orientation, Adaptive Marketing Capabilities and Sustainable Competitive Advantage Link	178
5.1.1	The impact of Market Orientation on Sustainable Competitive Advantage	178
5.1.2	Indirect-only Mediation for the Relationship between Market Orientation and Sustainable Competitive Advantage	182
5.2	Learning Orientation, Adaptive Marketing Capabilities and Sustainable Competitive Advantage Link	184

5.2.1	The Impact of Learning Orientation on Sustainable Competitive Advantage	184
5.2.2	Non-mediation for the Relationship between Learning Orientation and Sustainable Competitive Advantage	188
5.3	Intellectual Capital Orientation, Adaptive Marketing Capabilities and Sustainable Competitive Advantage Link	189
5.3.1	The Impact of Intellectual Capital Orientation on Sustainable Competitive Advantage	189
5.3.2	Non-mediation for the Relationship between Intellectual Capital Orientation and Sustainable Competitive Advantage	194
5.4	Technology Orientation, Adaptive Marketing Capabilities and Sustainable Competitive Advantage Link	196
5.4.1	The Impact of Technology Orientation on Sustainable Competitive Advantage	196
5.4.2	Complementary Mediation for the Relationship between Technology Orientation and Sustainable Competitive Advantage.	198
5.5	Conclusions	200
5.6	Contribution of the Study	205
5.6.1	Theoretical Contribution	205
5.6.2	Practical Contribution	208
5.6.3	Contribution to Methodology	212
5.7	Sustainable Competitive Advantage and Business Performance	215
5.8	Recommendations	217
5.9	Limitations of the Research	224
5.10	Direction for Future Research	225
5.11	Concluding Remarks	227
	REFERENCE	229
	APPENDICES	266
	Appendix A: Direct Selling Condition, Guidelines & Current Practices	266
	Appendix B: Excerpts from Speech of Former Minister of Commerce And Consumer Affairs (2019)	268
	Appendix C: Revenue of Foreign-Owned MLM Companies 2018	270
	Appendix D: Number of Licensed Direct Selling Firms	272
	Appendix E: Cover Letter of Invitation to MLM Companies	273
	Appendix F: Survey Questionnaires	275
	Appendix G: MTA Translation	296
	Appendix H: Original and Modified Items for Each Study Construct	311
	Appendix I: Letter Of Confirmation	318
	Appendix J: Items Removed During Confirmatory Factor Analysis	319

LIST OF TABLES

Table		Page
1.1	Direct Sales Industry Annual Turnover	8
2.1	Summary of Studies on Strategic Orientation	49
3.1	Comparison between Probability and Non-Probability Sampling	108
3.2	Sample Size Recommendation in PLS for a Statistical Power of 80%	110
3.3	Market Orientation Scale Items	115
3.4	Learning Orientation Scale Items	116
3.5	Intellectual Capital Orientation Scale Items	118
3.6	Technology Orientation Scales Items	119
3.7	Adaptive Marketing Capabilities Scale Items	120
3.8	Sustainable Competitive Advantages Scale Items	121
3.9	Financial Performance	121
3.10	Non-Financial Performance	122
4.1	Profile of Respondents	140
4.2	Company Characteristics	141
4.3	Skewness and Kurtosis	143
4.4	Main Constructs Operationalisation	145
4.5	First-Order Constructs Psychometric Properties	151
4.6	Convergent Validity and Discriminant Validity – First Order Constructs	155
4.7	Heterotrait-Monotrait ratio (HTMT)	155
4.8	Indicator Reliability – Formative Second-order Constructs	157
4.9	Multicollinearity of First-order Constructs	159
4.10	Latent Variable Scores Code of First-order Constructs	160
4.11	Collinearity Values - Exogenous Constructs	162
4.12	Bootstrapping Results of Structural Model	164
4.13	Bootstrapping of Structural Model and Hypothesis	164
4.14	Path Coefficient and Effect Size	166
4.15	Q ² Predict, PLS-SEM RMSE and LM RMSE Values	168
4.16	Mediation Results	171
4.17	VAF Value	172
4.18	Summary of Hypothesis Results	176

LIST OF FIGURES

Figure		Page
1.1	Percentage of Sales Turnover by Product	7
1.2	Top 10 Global Market	8
2.1	RBV Theory Evolution	33
2.2	Adaptive vs Dynamic Marketing Capabilities	38
2.3	Static to Adaptive Capabilities	41
2.4	Conceptual Framework of the Study	75
3.1	Research Process for this Study	101
3.2	Methods of Data Collection for this Study	103
3.3	Reflective and Formative Model	129
3.4	Hierarchical Component Models	132
3.5	Reflective-Formative Type II - Repeated Indicator Approach Mode B	136
4.1	Reflective-Formative Type II and Repeated Indicator Approach Mode B	148
4.2	Two-Stage Approach	161
4.3	PLS Algorithm of Structural Model	163
4.4	Bootstrapping of Structural Mode	164
4.5	PLS Predict Procedure	167
4.6	Mediation Model	169
4.7	Mediation and Classification	170
5.1	Relationships between Strategic Orientations, Adaptive Marketing Capabilities, Sustainable Competitive Advantage and Business Performance	204

CHAPTER 1

INTRODUCTION

1.0 Chapter Overview

This chapter offers an introduction to the research study titled "The Influence of Strategic Orientation, Adaptive Marketing Capabilities on Sustainable Competitive Advantage of Multi-level Marketing Companies in Malaysia". It outlines the research's purpose, aims, and objectives in addressing the identified problem statement. The chapter begins by delving into the research background, followed by formulating the problem statement and research questions targeted at resolving the identified challenge. Additionally, the chapter highlights the research's importance, outlines its scope, provides an overview of the thesis structure, and concludes with a summary of the chapter's content.

1.1 Background of the Research

Multi-Level Marketing (MLM) is a marketing approach in which the company's income is derived from external, non-salaried teams rather than its internal sales staff (Peterson & Albaum, 2007; Selamet et al., 2020). Its inception is a topic of debate; some suggest this marketing concept dates back to the 1920s and 1930s. MLM has a broad definition since it existed and is often referred to as network marketing, direct selling, or referral marketing. According to the study of Keep and Nat (2014), this MLM retailing system has existed since 1945 by recruiting and sponsoring new distributors and selling through developed distributor networks. MLM business model has become well accepted, popularized and prevalent in society since the 1950s when Amway actively and vigorously initiated MLM strategy since its inception in

the United States. It was once categorized as the most successful business model in the 1990s (Dyer, 2001).

Malaysia possesses a well-established MLM history and is classified as a mature market within Southeast Asia (Lee & Loi, 2016). In addition, with the enactment of the Direct Sales and Anti-Pyramid Scheme Act 1993 by Malaysia's Ministry of Domestic Trade and Consumer Affairs (MDTCA), many multinational MLM companies are confident with the stable and matured landscape we have developed and protected. As such, for the past few decades, many foreign-owned MLM companies have emerged and prefer Malaysia to be the primary country of MLM in Southeast Asia (Lee & Dastane, 2019). In this scenario, foreign-owned MLM companies have been mushrooming in Malaysia and creating intense competition for homegrown MLM firms.

Furthermore, throughout these few decades, Malaysia's MLM sector has successfully nurtured a highly MLM-receptive market and many experienced MLM experts in managerial and marketing aspects (Lee & Loi, 2016). This condition will attract more multinational MLM companies into Malaysia and further elevate rivalry intensity. Moreover, MLM is a business model that features a low barrier to entry and relies on cash transactions without any credit terms. Given the current circumstances, numerous entrepreneurs have entered the market together with inexperienced individuals seeking to attain financial success in this sector (Lee & Dastane, 2019).

MLM of the direct selling industry makes a valuable contribution to Malaysia's economy, and the government has collaborated to grow the business further (DSAM, 2019). Furthermore, the Malaysia's Government acknowledges that the MLM sector not only contributes to economic growth financially, but also provides "full-time" and "part-time" jobs for people and for retirees (Gulabdin et al., 2020).

However, many MLM firms in Malaysia perished and lost sustainability with a high drop-out rate (Lee & Dastane, 2019). This situation is said to be due to a lack of sustenance to sustain their position in the market (Lee & Dastane, 2019). As a result, many domestic MLM companies are being left behind and weakened from time to time, compared to foreign-owned companies like Amway, Usana, Herbalife, Shaklee, Nuskin, etc., which keeps elevating in revenue and not many homegrown MLM companies managed to sustain their business for more than ten years since establishment (Lee & Dastane, 2019). Meanwhile, many foreign-owned companies in Malaysia have successfully sustained and reached above 40 years since their establishment. For instance, Amway has been recorded as Malaysia's largest foreign-owned MLM company after its establishment in 1976.

Given the high intensity of rivalry and the high dropout rate of MLM companies in Malaysia and driven by the dynamic capabilities and resource-based theory, past studies suggests that strategic orientations are regarded as valuable resources which play a critical role in improving companies' performance because firms with a strategic orientation can demonstrate a higher capacity to innovate, enabling them to adapt to environmental changes more effectively and acquire competencies that grant them a competitive edge, ultimately resulting in enhanced performance. (Martin & Javalgi, 2016). Also, it revealed that marketing capabilities are a critical mechanism for converting strategic orientations into excellent outcomes. Such that according to Morgan et al. (2009), strategic orientations resemble the "know-what", while marketing capabilities are "know-how" as it involved in deploying activities. Yet, some observations and viewpoints suggest that the connection between a distinct strategic orientation and organizational performance could potentially be exaggerated (Sa'id et al., 2019; Osman, 2014). As a result, a composition of strategic orientations

is used in this research to highlight the practices in the MLM business, reflecting a more nuanced and practical view of the strategic orientations adopted by the company. The strategic orientation construct adopted in this research covers market, learning, intellectual capital and technology orientation. Market and learning orientations have been widely studied in existing research and have been found to provide significant competitive advantage and enhance company performance. (Yang et al., 2022a). This research, however, included two constructs that have received relatively less attention in previous studies: technology orientation (Azilah & Levent, 2016; Osman, 2014) and intellectual capital orientation, which is currently a crucial factor in today's consumer-centric and highly competitive environment (Al-Jinini et al., 2019; Mubarik et al., 2019).

In the strategic orientation-capabilities-sustainable competitive advantage link, this research applies adaptive marketing capabilities as a mediating variable between strategic orientations and sustainable competitive advantage, suggesting that strategic orientations are capable of generating indirect impacts on MLM firms' sustainable competitive advantage through adaptive marketing capabilities. The findings from this investigation provide a valuable addition to the existing body of knowledge on strategic orientations, adaptive marketing capabilities, and sustainable competitive advantage. More specifically, this research intends to contribute to Malaysia's MLM sector by finding strategies for improving MLM companies' competitiveness and performance.

1.2 Multilevel Marketing in Malaysia

The presence of MLM in Malaysia started in the 70s with the establishment of Amway in 1976, followed by Cosway in 1979. In 1994, BERJAYA GROUP, a Malaysian conglomerate, acquired Cosway, becoming the successful Malaysian-owned direct-

selling company (Berjaya, 2020). Several Malaysian MLM companies have achieved longevity and success, including CNI Enterprise (established in 1989), EDMARK (established in 1984), Gano Excel (established in 1983) and Zhulian (established in 1989) (Lee & Dastane, 2019).

After the Malaysia Direct Sales and Anti-Pyramid Act of 1993 was enacted, Malaysia was the first country in Southeast Asia to establish the MLM sector (Lee & Loi, 2016). The first Direct Sales firm to be registered with the MDTCA was Avon Cosmetic (M) Sdn. Bhd., which had the registration number AJL93001. The Direct Sales and Anti-Pyramid Act of 1993 mandates that all direct selling companies are subject to the regulatory oversight of the MDTCA and must obtain official authorization prior to commencing operations, as stipulated in Sections 14 and 42 of the legislation. Three types of direct-selling marketing (MDTCA, 2021) platforms are allowed as follows:

- 1) Multilevel Marketing (MLM) – the distributors of an MLM firm recruit their downlines in their network to sell the company’s products or services. The recruits will recruit more distributors (downline) to form their network to do the same. This duplicable process will continue to form a broader and deeper network. In return, the distributors will entitle to the commission or incentive from their respective sales and the overriding commission from network sales.
- 2) Single Level Marketing (SLM) – SLM firm will appoint distributors or agents to sell its products and services. The commission will be paid based on the monthly sales of product offerings. Unlike MLM, the distributors of SLM are not allowed to recruit downlines to form the network.
- 3) Mail Order Sales (MO) – Products and services are marketed and sold through mail orders.

As stated by DSAM (2020a), “as the nature of business, MLM firms are required to have a paid-up capital of RM750,000 for a Bumiputera company, RM1.5 million for a non-Bumiputera company and RM5 million for a foreign-owned company”.

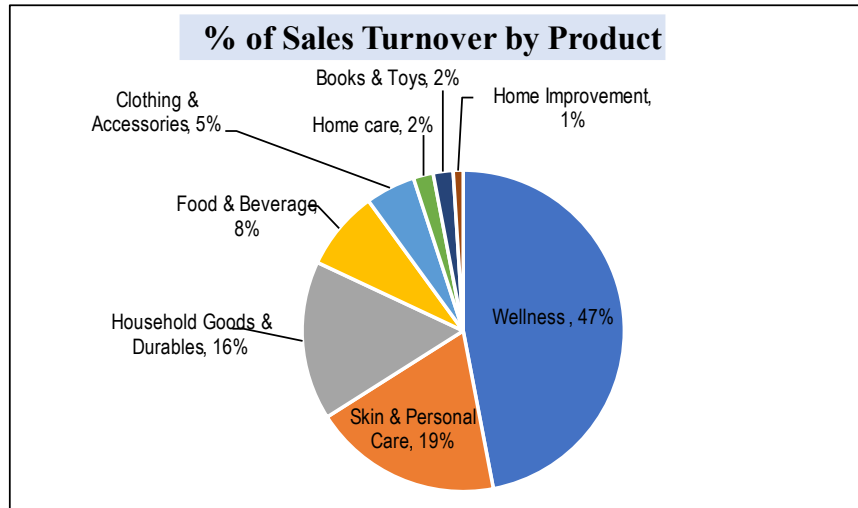
The regulation of the direct selling industry in Malaysia is overseen by two prominent organizations, namely the Direct Selling Association Malaysia (DSAM) and Malaysia Direct Distribution Association (MDDA). These organizations comply with the requirements set forth by the Malaysia Direct Sales and Anti-Pyramid Act 1993. Functioning on a societal level, DSAM and MDDA actively cultivate and uphold an environment that nurtures the stability and expansion of Malaysia's direct selling industry. DSAM was established in 1978, while MDDA was founded in 1993. These associations function as national trade associations, advocating for the direct selling industry both within Malaysia and on the international stage. The MDTCA has endorsed the stringent ethical code of conduct, guidelines, and current practices of these self-regulatory bodies (see Appendix A). Additionally, DSAM and MDDA are affiliated with the World Federation of Direct Selling Associations (WFDSA). It is mandatory for any licensed direct-selling company in Malaysia to become a member of either DSAM or MDDA as per the requirements set by MDTCA.

In Malaysia, MLM represents a varied business landscape with a significant array of product categories. Almost every consumer product or service authorized by the MDTCA can be promoted through MLM, covering a spectrum from health products and food items to household goods.

MLM firm needs products suitable for their business model and should be able to generate repeat sales, such as consumable products. DSAM (2020b) reported that Malaysia's direct selling companies carry products mostly in wellness and health supplements (47%), household goods and durables (16%), Cosmetic and personal care

(19%), and the remaining will be clothing and accessories, home improvement, foodstuff and beverages, books, toys and stationery as figure 1.1.

Figure 1.1: Percentage of Sales Turnover by Product



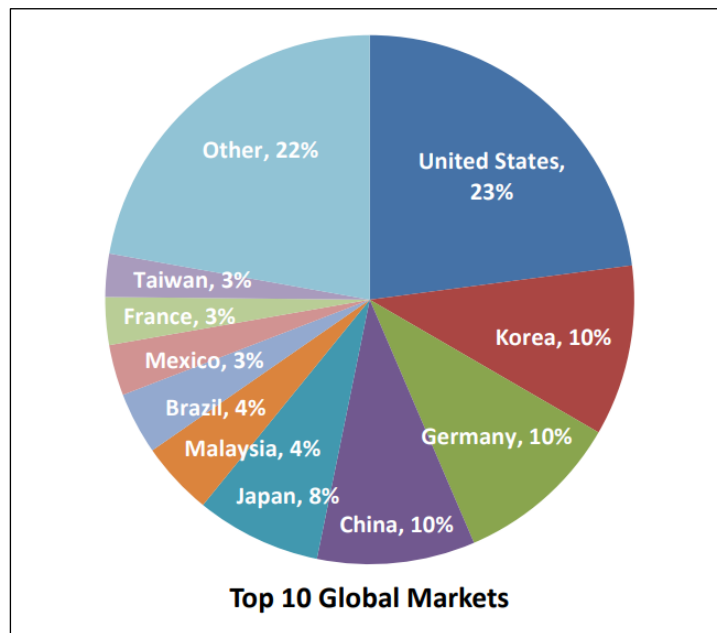
Source: DSAM Direct Selling Statistic Malaysia 2020

Prices of MLM companies' products are under regulation and unauthorized online sales are prohibited. DSAM and MDDA have proposed these regulations to the ministry and enforcement is in effect. Prior approval from respective MLM companies is required for online sale of direct selling products (DSAM, 2021).

As mentioned in section 1.1, the MLM sector contributes to Malaysia's economy. In 2020, 103 million independent distributors worldwide and 3.5 million were in Malaysia, as reported by official sources (DSAM, 2020b). According to a DSAM (2020b) study, direct sales in Malaysia increased by 20% to 30% during the Movement Control Order (MCO) era. Many people are seeking methods to supplement their income right now, while others may view MLM as a means to start their own business. The MCO directly affects every state in Malaysia, with Sabah having the highest unemployment rate for men and women at 14 per cent, followed by the Northern Peninsular states, Kedah, Kelantan, Perak, and Perlis at 11 per cent. Unemployed teenagers in Sabah were encouraged to engage in business, and one business

recommended is MLM (DSAM, 2020b). According to the DSAM (2020b), direct selling has become one of the most popular business platforms among recent graduates. People are beginning to enter the MLM sector since it is equipped with excellent mechanisms, as shown by the growing knowledge of its presence, especially in Malaysia.

Figure 1.2: Top 10 Global Market



Source: WFDSA 2021

Table 1.1: Direct Sales Industry Annual Turnover

Type of License	Year		
	2016 (million)	2017 (million)	2018 (million)
Multi-Level	5,572	6,199	5,705
Single Level	8,207	6,812	9,577
Mail Order	555	639	617
Total	14,334	13,650	15,900

Source: MDTCA (2018)

In 2018, the Direct Selling Industry made a significant contribution of MYR15,900 million to the Malaysia's economy, as reported by the Ministry of Domestic Trade and Consumer Affairs (MDTCA, 2018). This information is presented in Table 1.1, although data beyond 2018 is unavailable in MDTCA's portal due to unknown reasons. Malaysia has also emerged as one of the top 10 global markets for direct sales, accounting for 4% of global sales, as indicated in Figure 1.2, according to the World Federation of Direct Selling Associations (WFDSA, 2021).

Over the past four decades, Malaysia has established itself as a mature and experienced country in the field of direct selling, with the MLM business model having a long-standing presence. The country's extensive MLM history has led to many foreign-owned and international MLM companies selecting Malaysia as a strategic hub in Southeast Asia for training and developing their high-level executives. These well-trained professionals are subsequently assigned to important roles in other countries (Lee & Loi, 2016).

During the 1990s, international MLM companies recognized the ever-expanding and profitable MLM sector in Malaysia, prompted by the success of pioneer companies. Consequently, numerous international brands such as Tupperware, Herbalife, Mary Kay, Nu Skin, Usana, Shaklee, and Chini ventured into the Malaysia's market, establishing a lasting presence (Lee & Dastane, 2019).

The direct selling industry flourishes with the advent of diverse digital market models, particularly the increasing involvement of online merchants. This is demonstrated by the industry's contribution to revenues of RM 20 billion in 2020, which indicates that it is well on track with the target of the Direct Selling Blueprint, launched in 2013 (DSAM, 2022).

Datuk Seri Saifuddin Nasutan Ismail, the former Minister of Commerce and

Consumer Affairs, spoke extensively about the industry's importance to the country's economy, as attached in Appendix B. However, for Malaysia's direct selling industry, especially MLM, the ongoing attack by illegal money games and schemes has created the stiffened resistance and detestation of numerous unreceptive publics on legitimate MLM, which are unbearable to accept the concept of MLM. One way to mend this is to prove to them that this model works legitimately with government support. Given this scenario, the government is consistently publicizing the deleterious outcome the illegal MLM has caused to our society and country (DSAM, 2019).

Concurrently, in supporting the local entrepreneur, the ministry approves over 20 new legitimate direct sales companies annually (MDTCA, 2020), as there is high demand for applications due to the low entry barrier. This also maintains the number of active companies because of the yearly dropout rate of non-performing MLM companies. Nevertheless, these measures alone will not address the complexity of the current situation, as new and emerging companies are likely to struggle amidst intense competition, particularly from well-established foreign-owned MLM giants (Lee & Dastane, 2019).

Moreover, the mushrooming of third-party e-commerce platforms and online sellers and added ongoing and upcoming strong foreign brands of cosmetic and health supplement products in Malaysia have further intensified the competition (Euromonitor, 2020).

As stated by Saifuddin Nasutan, MLM companies in Malaysia need to adapt and transform. In fending off the competitors' challenging strategies, MLM companies are required to increase their competencies in terms of resources and capabilities, network, and social capital dynamism toward gaining sustainable competitive advantage (Lee & Dastane, 2019).