

Unveiling trust as a mediator in distributor loyalty within South African multi-level marketing



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Background: Limited research has been conducted in South Africa's multi-level marketing (MLM) sector, particularly pertaining to distributor satisfaction and its influencing factors.

Aim: This study aims to determine the extent to which trust mediates the relationship between distributor satisfaction and loyalty within the MLM framework in South Africa.

Setting: This study was conducted among distributors within the South African multi-level marketing environment.

Method: This study adopted a descriptive research design. A total of 376 distributors from health and wellness sectors, focused on MLM companies in South Africa. They were selected through non-probability convenience sampling. Confirmatory factor analysis (CFA) was employed to validate the data's reliability, while structural equation modelling (SEM) was utilised to examine both the direct and indirect effects postulated in the study.

Results: The analysis revealed a notable indirect positive effect, linking distributor satisfaction to distributor loyalty, with trust acting as a mediating variable. Additionally, direct positive correlations were identified between distributor satisfaction and loyalty and between distributor trust and loyalty.

Conclusion: For health and wellness MLM companies in South Africa, it is vital to enhance distributor loyalty and trust. This can be accomplished by increasing distributor satisfaction and refining the way they communicate business opportunities.

Contribution: Multi-level marketing can benefit from the findings of the research as this improves insight into the direct and indirect effects of distributor satisfaction on distributor loyalty and trust and provides empirical insights into the MLM industry.

Keywords: multi-level marketing; distributor; distributor satisfaction; distributor loyalty; distributor trust.

Introduction

The multi-level marketing (MLM) industry has experienced increased popularity and is developing into an attractive industry globally (Mahapatra, Dutta & Uday 2021:52). Multi-level marketings, also known as network marketing or direct selling, are characterised by a blend of relationship marketing and transactional strategies used to distribute products. This approach involves enlisting independent distributors who are responsible for marketing and selling the products directly to consumers (Groß & Vriens 2017:333; Nga & Mun 2011:51). This means that distributors are paid a specific pre-set percentage of sales that are generated on a weekly or monthly basis, as well as the percentage of downline sales. (Nadlifatin et al. 2022:111). As a result, the business bypasses intermediaries and directly sells to the consumer, leading to cost savings (Mahapatra et al. 2021:59). Accordingly, a distributor has the prospect of becoming financially independent (Nga & Mun 2011:5). The shift towards home-based work for distributors, along with the rapid expansion of social media platforms, has revolutionised their market reach. This new paradigm allows distributors to tap into a vast global network, presenting opportunities to interact with millions of potential clients and customers worldwide (Bala & Verma 2018:324).

Furthermore, it is crucial to acknowledge that several different industries are beginning to adopt the MLM business model. These include sectors such as cosmetics, jewellery, wine, books, nutrition and weight management products, supplements, as well as home and storage product

solutions (Groß & Vriens 2017:333). These various products are grouped into three main categories, which consist of household goods, health and wellness, and beauty products (Olalekan Ezekiel & Toba 2020:64). This investigation selectively concentrated on the leading ten health and wellness MLM businesses in South Africa, primarily because of the enhanced accessibility and availability of distributors.

High unemployment rates and slow economic growth are major factors straining the South African economy (Nadlifatin et al. 2022:111). Nevertheless, individuals facing unemployment have the potential to generate income through engagement as distributors in MLM businesses (Jain, Singla & Shashi 2015:903). It is, therefore, important for MLM businesses to comprehend that to achieve sales goals and, ultimately long-term success within this competitive industry, it is essential to create value for both customers and distributors (Purcaru et al. 2022:1). Distributor satisfaction is vital to the success of an MLM business, as distributors are responsible for recruiting new distributors and keeping them motivated to sell various businesses products (Kwee-Fah, Teck-Chai & Kai-Yin 2016:106; Mahapatra et al. 2021: 51). Moreover, it is imperative for MLM businesses to cultivate a cadre of distributors who exhibit both loyalty and trust towards the MLM business. Consequently, the MLM industry emerges as a vital component within South Africa's economic landscape, contributing significantly to the national economy, offering supplementary income avenues, and potentially elevating the living standards of its distributors.

The primary objective of this article is to determine the influence of distributor satisfaction on loyalty as mediated by trust within the MLM environment in SA.

Effectively this study makes a meaningful contribution to the current body of literature on MLM in several ways. Firstly, it improves the understanding of the direct and indirect influence of distributor satisfaction on distributor loyalty, as mediated by distributor trust within the South African MLM industry. Secondly, the article improves the theoretical insights into South African MLM, distributor satisfaction, distributor trust, and distributor loyalty. Thirdly, the suggested model could potentially open up avenues for additional research concerning MLM within the context of South Africa, particularly concentrating on distributors and their influence on business performance.

The article is structured as follows: The following section presents the theoretical framework, which provides insight into distributor satisfaction, distributor loyalty, and distributor trust, as well as the interrelationships and potential moderating effects. This is followed by the methodology and research outcomes. The article will then conclude with the theoretical and managerial implications and directions for future research.

Research problem, purpose, and objectives

Health and wellness MLM businesses play a significant role in developing countries such as South Africa by actively contributing to the economic growth. This is because of the fact that MLM businesses can provide the unemployed with income or a supplementary income and raising the standard of living for regular people. Similarly, distributors have the role of enlisting and inspiring new distributors, in addition to their responsibilities in promoting and selling products for the MLM business (Kwee-Fah et al. 2016:106; Mahapatra et al. 2021:51). This underscores the importance of distributor loyalty in achieving success for MLM businesses.

Therefore, the research's aim for the study is to determine the influence of distributor satisfaction on loyalty as mediated by trust within the MLM environment in South Africa.

Literature review and theoretical basis

The literature review focuses on the method of diffusing business opportunity, distributor satisfaction, distributor loyalty, and distributor trust in the health and wellness MLM industry.

The method of diffusing business opportunity

In MLM businesses, the diffusion of the business opportunity involves how the MLM business conveys this opportunity to its distributors. This typically begins with the distributor's initial purchase, after which they assume the responsibility of both recruiting an active downline for the MLM business and selling its products (Mansouri & Unanoğlu 2022:183). The business opportunity is the leading antecedent for distributor satisfaction towards the MLM business (Lee & Loi 2016:59). Hence, it is crucial for MLM businesses to effectively convey the most favourable business opportunity to their distributors and consistently provide them with the relevant information.

Distributor satisfaction

Distributor satisfaction is defined as the perception of an MLM business's performance and service across various aspects, such as quality of products, the upline or downline, and meeting or surpassing the anticipated results (Ali et al., 2021:65; Homburg et al. 2002:85; Kim 2010:226; Omolade & Otori 2020:110; Ruefenacht 2018:1036). Satisfied distributors play a pivotal role in the promotion and endorsement of an MLM business's products to their customer networks, fostering greater loyalty (Mansouri & Unanoğlu 2022:182). Moreover, the satisfaction of distributors holds significant importance in the overall success of MLM businesses, as they shoulder responsibilities ranging from recruiting and motivating new distributors to marketing the MLM's products within their customer networks and driving sales (Kwee-Fah

et al. 2016:106; Mansouri & Unanoğlu 2022:183). Consequently, when an MLM business effectively understands and meets the needs of its distributors, it attains distributor satisfaction, which is a crucial element in sustaining and expanding its operations (Nga & Mun 2011:54).

Distributor loyalty

Distributor loyalty refers to a commitment from the distributor to the MLM to continue to market, repurchase, and sell products offered to their customer network, regardless of any additional marketing or situational influences (Dhir, Dutta & Ghosh 2020:1697; Ruefenacht 2018:1036). Distributors are viewed as a MLM business' key assets, and therefore, MLM businesses need to ensure that distributor needs are satisfied as satisfaction is a significant prerequisite for loyalty (Dhir et al. 2020:1698; Purcaru et al. 2022:4; Phuong & Vinh 2020:701; Omolade & Otori 2020:110).

The interrelationship between the method of diffusing business opportunity, distributor satisfaction, distributor loyalty, and distributor trust

For MLM businesses to grow in such a competitive environment, MLM companies provide distributors with rewarding compensation plans and material incentives to persuade potential distributors to join in an attempt to increase distributor satisfaction (Keong & Dastane 2019:9). For individuals with an entrepreneurial drive, MLM businesses can serve as a valuable means of generating supplementary income (Nga & Mun 2011:56). Therefore it is proposed that:

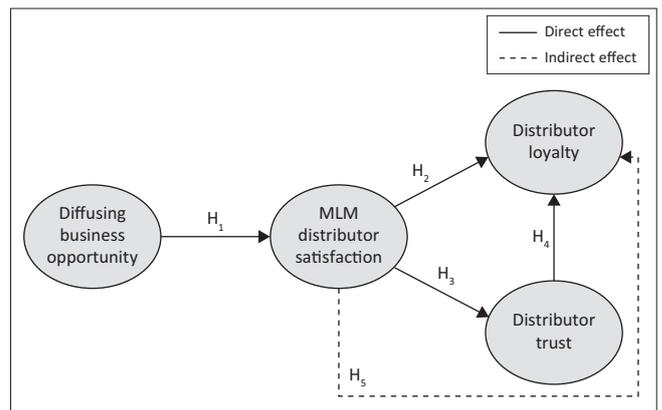
H1: Method of diffusing business opportunity has a positive and significant direct effect on distributor satisfaction.

Distributors achieve greater satisfaction when higher sales are generated, which also affects the loyalty the distributor has for the MLM business (Lee et al. 2016:107). It is also highlighted that MLM businesses can improve distributor loyalty by focusing on satisfying distributor needs as satisfaction is regarded as a key prerequisite for distributor loyalty (Omolade & Otori 2020:110; Phuong & Vinh 2020:701). As a result, distributors who are content with their experience are more inclined to remain committed to the MLM business (Bricci, Fragata & Antunes 2016:175). Hence, it was proposed that:

H2: Distributor satisfaction has a positive and significant direct effect on loyalty.

Trust plays a pivotal role in the success of an MLM business, serving as a critical factor in cultivating distributor confidence and motivation to engage in collaborative efforts with the MLM business (Bruckermann 2021:91). Similarly it is important to understand that higher distributor satisfaction leads to higher distributor trust (Boonlertvanich 2019:292; Bricci et al. 2016:175). Given this context, it was suggested that:

H3: Distributor satisfaction has a positive and significant direct effect on distributor trust.



Source: Kleynhans, M., 2023, 'The influence of distributor satisfaction on loyalty within multi-level marketing in South Africa: The mediating role of trust', Masters dissertation, North-West University, Potchefstroom.

MLM, multi-level marketing.

FIGURE 1: Conceptual model of the study.

As previously mentioned, trust serves as a vital prerequisite for establishing enduring relationships, a principle that holds true within MLM businesses where mutual trust is essential for success (Poon, Albaum & Yin 2017). In addition, distributors who are satisfied and have trust in the MLM business are more inclined to develop loyalty towards the business (Lee et al. 2016:109). Consequently, distributor trust tends to evolve into distributor loyalty over time (Haron et al. 2020:7). Therefore, it was proposed that:

H4: Trust has a positive and significant direct effect on distributor loyalty.

Satisfaction plays a role in building trust, and as a result, trust contributes positively to loyalty (Boonlertvanich 2019:292). Furthermore, trust might serve as a mediating factor between satisfaction and loyalty. Hence, it was proposed that:

H5: Distributor satisfaction has a significant and positive indirect effect on loyalty towards the MLM business, as mediated by trust.

The graphical illustration of the conceptual model and hypotheses formulated is presented in Figure 1.

Research methodology

The study employed a quantitative descriptive research approach to gather primary data, allowing us to gain a comprehensive understanding of the health and wellness MLM industry in South Africa, along with the intricate connections among the study's key constructs: the business opportunity diffusion method, distributor satisfaction, distributor loyalty, and trust. The study's target demographic consisted of current, engaged distributors from one of the top 10 health and wellness MLM companies in South Africa who were 18 years of age or older. To be eligible, respondents needed to have held their distributor role within the MLM business for a minimum of 6 months.

Obtaining a sample frame for this research proved challenging because of the *Privacy Protection Act of 2021* (POPIA) that

safeguards the confidentiality and non-disclosure of information in South Africa. Therefore, a non-probability sampling technique was used to identify possible participants for this research project. Convenience sampling, chain referral sampling, and quota sampling were the three non-probability sampling strategies that were used. Convenience sampling was employed to initially identify participants for the study. This was followed by utilising referral sampling, where distributors who agreed to participate were asked to further distribute the study among other MLM distributors, aiding in achieving the desired sample size. In addition, quota sampling was applied to guarantee equal representation of the ten MLM businesses identified. Data were gathered by a computer-administered survey, and the scale of distributor satisfaction, distributor loyalty, and distributor trust was created using scales from Kwee-Fah et al. (2016), So et al. (2014), and Verhoef, Franses and Hoekstra (2002), respectively, that were already validated. Data collection took place in the months of June and July 2022, with a final sample size of 376 being achieved. Structural equation modelling was conducted in this research project to measure the relationships between the constructs of the study to develop a theoretical model.

Ethical considerations

Ethical clearance to conduct this study was obtained from the North West University, Economic and Management Sciences Research Ethics Committee (EMS-REC) (No. NWU-00669-22-A4) on 27 May 2022.

Findings of the research

The measurement model's reliability was assessed by calculating Cronbach's alpha values and construct reliability values. Furthermore, the validity of the measurement model was scrutinised through tests for construct, convergent, discriminant, and content validity. The Cronbach's alpha

values for the variables, including the method of diffusing business opportunity (0.848), distributor satisfaction (0.902), distributor loyalty (0.942), and distributor trust (0.966), all exceeded the recommended threshold of 0.7 and fell within the range of 0.848–0.966. Consequently, all the constructs under investigation in this study were deemed reliable.

To determine the validity of the model, encompassing key constructs such as the method of business opportunity diffusion, distributor satisfaction, loyalty, and trust, an array of statistical analyses was performed. These analyses were focused on evaluating the model's overall fit and its content, construct, convergent, and discriminant validity. These tests, along with their results, are presented in Table 1.

The model fit statistics, as determined through a CFA, indicate that the measurement model demonstrates an acceptable level of fit. To ensure content validity, previously validated measurement items from established sources such as Kwee-Fah et al. (2016), So et al. (2014), and Verhoef et al. (2002) were incorporated into the questionnaire. Furthermore, the results of the CFA were analysed to assess both convergent and discriminant validity within this research study. As a result, the relevant measurement items associated with the construct exhibit a substantial degree of shared variance, supporting the presence of construct validity.

Table 2, provides the standardised factor loadings, standard errors of the effect sizes, and *p*-values (significance values) for each statement corresponding to the variables under investigation.

Table 2 reveals that the factor loadings for all measurement variables are notably strong, surpassing the recommended threshold of 0.50. This signifies that all factors have a substantial and significant association with their respective constructs, justifying their retention within the framework (Malhotra 2020:702). Furthermore, it is worth noting that all measurements exhibit significance, as indicated by *p*-values of ≤ 0.001 .

In addition to assessing factor loadings, the research study also calculated measures of convergent validity, construct reliability, and average variance extracted (AVE) for the measurement

TABLE 1: Fit statistics of the structural model.

Fit index	χ^2	<i>df</i>	χ^2/df	TLI	CFI	RMSEA
Model	715.959	255	2.81	0.901	0.916	0.063

TLI, Tucker–Lewis index; CFI, comparative fit index; RMSEA, root mean square error of approximation.

TABLE 2: Standardised factor loadings, errors, and significance values.

Variable	Measurement items	Std. loading	Std. error	<i>p</i>
Distributor satisfaction	The MLM business always shows interest in the concerns and needs of the distributors	0.79	0.02	0.001
	I feel my job as a MLM distributor is enjoyable	0.89	0.01	0.001
	I am satisfied with my overall experience with the MLM business	0.94	0.01	0.001
Method of diffusing business opportunity	In my opinion, the existing rules, and procedures of the MLM business make the distributor's job easier	0.81	0.02	0.001
	I am satisfied with the opportunity for advancement in the MLM business	0.91	0.01	0.001
Distributor loyalty	I intend to stay with the MLM business	0.93	0.01	0.001
	I am committed to the MLM business	0.94	0.01	0.001
	I would be willing to stay a distributor of the MLM business even if they increase their prices.	0.90	0.01	0.001
Distributor trust	The MLM business can be relied on to keep its promises	0.91	0.01	0.001
	The MLM business puts the consumer's and distributor's interests first	0.93	0.01	0.001
	The MLM business keeps the promises that it makes to me	0.96	0.01	0.001
	I can count on the MLM business to provide a good service	0.95	0.01	0.001

MLM, multi-level marketing; Std., standard.

p < 0.001.

model. Table 3 provides a concise summary of the composite reliability (CR) and AVE values for each construct evaluated in this research.

As presented in Table 3, the CR values range from 0.85 to 0.97, indicating a robust internal consistency, surpassing the established threshold of 0.70 (Babin & Zikmund 2016:283). In addition, it is important to notice that AVE values should exceed the recommended benchmark of 0.50 (Malhotra 2020:289). In this study, the AVE values fall within the range of 0.74–0.88, as previously indicated. These results, coupled with the findings related to factor loadings and construct reliabilities, collectively demonstrate that the latent variables in the research exhibit reliability and strong convergent validity.

As the research advanced, the analysis involved the development of a structural model, which was then incorporated with regression analysis in congruence with the research hypotheses, as detailed in Table 4. In this study, SEM was utilised to evaluate both the measurement and structural theories (Malhotra 2020:697).

As depicted in Table 4, the results of the CFA (Confirmatory Factor Analysis) indicate that the degrees of freedom (χ^2/df) ratio stands at 2.81. This value falls below the maximum cut-off threshold of <5.00, signifying a favourable fit. Furthermore, the comparative fit index (CFI) and Tucker–Lewis index (TLI) surpass the recommended values of > 0.90, with values of 0.901 and 0.916, respectively. Lastly, the root mean square error of approximation (RMSEA) for this study computes to 0.063, which is below the guideline of <0.08. This result

indicates an acceptable model fit, preventing any misinterpretation of the SEM results.

With a well-fitting structural model established, the analysis can progress to testing the hypotheses. Therefore, the structural model, complete with regression weights for each specified relationship, can be further explored. Table 5 provides a concise summary of the direct effects derived from the SEM analysis.

The results of the SEM analysis revealed several significant findings. Firstly, the method of diffusing the business opportunity exhibited a substantial and positive impact on distributor satisfaction ($\beta = 0.74$; S.E. = 0.14; $p < 0.001$), thereby supporting Hypothesis 1 (H1). Secondly, distributor satisfaction demonstrated a positive and statistically significant influence on both distributor loyalty ($\beta = 0.71$; S.E. = 0.09; $p < 0.001$), corroborating Hypothesis 2 (H2), and distributor trust ($\beta = 0.85$; S.E. = 0.04; $p < 0.001$), confirming Hypothesis 3 (H3). Thirdly, the relationship between distributor trust and distributor loyalty ($\beta = 0.21$; S.E. = 0.10; $p = 0.036$) was not significant, rejecting H4.

Interestingly, the data unveiled two significant indirect effects. Firstly, a noteworthy indirect effect emerged between distributor satisfaction and distributor loyalty, mediated by trust ($\beta = 0.01$; $p < 0.001$; CI [0.18, 0.30]), providing support for Hypothesis 5 (H5). Secondly, a serial mediation pathway was identified, involving an indirect effect linking the method of diffusing the business opportunity, distributor satisfaction, distributor trust, and distributor loyalty ($\beta = 0.01$, 95% CI [0.13, 0.34]). For a concise summary of these regression results, refer to Figure 2.

TABLE 3: Composite reliability and average variance extracted values.

Construct	CR	AVE
Method of diffusing business opportunity	0.85	0.74
Distributor satisfaction	0.91	0.79
Distributor loyalty	0.94	0.85
Distributor trust	0.97	0.88
Acceptable value	> 0.70*	> 0.50*

Source: Recommended values Malhotra, N.K., 2020, *Marketing research: An applied orientation*, 6th edn., Pearson, Harlow, p. 289.

CR, composite reliability; AVE, average variance extracted.

TABLE 4: Fit statistics of the structural model.

Fit index	χ^2	df	χ^2/df	TLI	CFI	RMSEA
Model	715.959	255	2.81	0.901	0.916	0.063

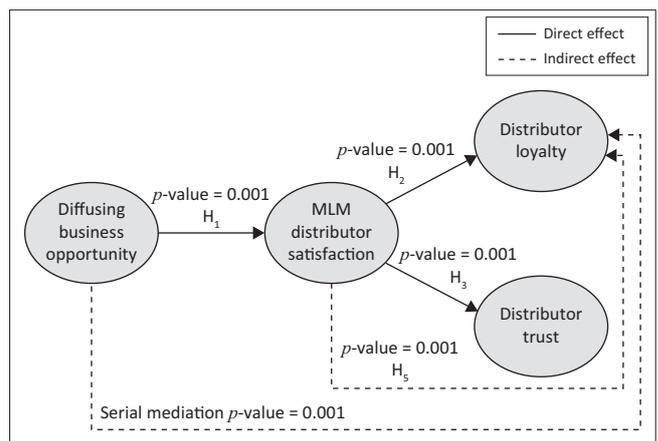
Source: Kleynhans, M., 2023, 'The influence of distributor satisfaction on loyalty within multi-level marketing in South Africa: The mediating role of trust', *Masters dissertation*, North-West University, Potchefstroom.

TLI, Tucker–Lewis index; CFI, comparative fit index; RMSEA, root mean square error of approximation.

TABLE 5: Hypothesis testing: the direct effects.

Hypothesis	Relationship	Std. β	p	Result
H1	Method of diffusing business opportunity → Distributor satisfaction	0.74	0.001	Significant
H2	Distributor satisfaction → Distributor loyalty	0.71	0.001	Significant
H3	Distributor satisfaction → Distributor trust	0.85	0.001	Significant
H4	Distributor trust → Distributor loyalty	0.21	0.036	Non-significant
H5	Distributor satisfaction → Distributor trust → Distributor loyalty	0.01	0.001	Significant indirect effect

Std. β , standard beta.



MLM, multi-level marketing.

FIGURE 2: A summary of the regression results obtained.

Discussion and managerial implications

As mentioned, health and wellness MLM companies play a significant role in boosting the economy of developing countries such as South Africa. They offer a vital source of primary or additional income for the unemployed, thereby improving the general standard of living. Distributors in these businesses are key players, tasked with bringing in and inspiring new members, as well as marketing and selling products. This highlights the critical importance of distributor loyalty for the success of MLM businesses (Kwee-Fah et al. 2016:106; Mahapatra et al. 2021:51). Confirmation of the method of diffusing business opportunity as an antecedent of distributor satisfaction (H1) supports the argument that the way in which the MLM business communicates the business opportunity to the distributor plays a significant role in how satisfied a distributor will be. Therefore, it can be indicated that the business opportunity plays a crucial role when new recruits choose which MLM business to join (Lee & Loi 2016:59). Another interesting observation from this findings was that distributor satisfaction influences distributor loyalty (H2), and distributor trust (H3), which supports the fact that satisfied distributors will be easier to retain, and will be more trusting (Bricci et al. 2016:175). In addition distributor satisfaction indirectly influences loyalty through the mediation of trust. This finding posits that in MLM businesses, the nexus between distributor satisfaction and loyalty is considerably swayed by the trust level a distributor places in the business. Effectively, this study contributes to the existing literature on MLM in various ways. Firstly, the study improves the understanding of the direct and indirect influence of distributor satisfaction on distributor loyalty, as mediated by trust within the South African MLM industry. Secondly, the study improves the theoretical insights into South African MLM, distributor satisfaction, distributor trust, and distributor loyalty. Thirdly, the proposed model may pave the way for further research on MLM in South Africa, with a specific focus on distributors and their impact on business performance. Fourthly, a serial mediation was uncovered that can also contribute to the existing literature on MLM.

Multi-level marketing businesses should focus on strategies to improve distributor satisfaction. Higher satisfaction levels are likely to lead to increased loyalty, contributing to a stronger, more committed distributor network. Similarly, MLM businesses need to establish trust-building measures to strengthen this relationship. The findings further suggest that focusing on satisfying distributors can be an effective retention strategy, especially in businesses where distributor turnover is high. Higher distributor satisfaction and trust levels can also be viewed as a competitive differentiator, as MLM businesses can attract more distributors and retain them for longer. Multi-level marketing businesses also need to develop training programmes that prioritise the development of distributor satisfaction and trust, which in turn will foster a positive and productive working environment.

Conclusion

Limitations and future research

It is however important to also discuss the limitations of the study. Firstly, there was a scarcity of scholarly articles focused on the MLM industry, particularly those that concentrate on the South African MLM sector. Secondly, there has been minimal research aimed at exploring the relationships between distributor satisfaction, distributor loyalty, and distributor trust within the MLM industry. This research's findings are derived from data collected from respondents in the MLM sector, which inherently limits the applicability of the results to different industries. Moreover, compliance with the *Protection of Personal Information (POPI) Act of 2021* imposed restrictions, preventing the study from securing a complete sampling frame of the distributors in the MLM industry. Lastly, another limitation of the study was its reliance on probability sampling, which heightened the risk of sampling bias affecting the results.

Future research can expand the investigation by applying the model, as well as the direct and indirect effects of distributor satisfaction on distributor loyalty and trust in different countries and industries that were not included in this study. By moving beyond the confines of a single country, this research could explore potential variations in findings. Furthermore, it would be beneficial to include additional constructs such as brand loyalty, purchase intent, and service quality.

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Competing interests

The authors declare that they have no financial or personal relationship(s) that may have inappropriately influenced them in writing this article.

Authors' contributions

The research model was conceptualised by M.K. who was also responsible for the introduction, literature review, methodology, statistical analysis, and theoretical implications section. C.W. contributed to the literature review, managerial implications, and conclusions, as well as the reviewing and editing of the article.

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Data availability

The authors confirm that the data supporting the findings of this study are available within the article.

Disclaimer

The views expressed in the submitted article are those of the author and not an official position of the institution or funder.

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