



## Analysing The Psychographic And Structural Determinants Of Success And Ethical Concerns In The Multi-Level Marketing Industry In Kerala

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### ABSTRACT

**Background:** The Multi-Level Marketing (MLM) industry in India has witnessed exponential growth, particularly in the state of Kerala, a region characterized by high literacy, financial aspiration, and significant youth unemployment. Despite its penetration, the industry is mired in controversy regarding its ethical foundations, sustainability, and actual economic benefits for participants. This study aims to develop and test a comprehensive model to identify the key psychographic and structural factors influencing an individual's perceived success within MLM organizations in Kerala and to measure the latent construct of ethical concerns associated with the business model. A cross-sectional research design was employed, collecting data from 412 active MLM participants across three major districts in Kerala (Ernakulam, Thiruvananthapuram, Kozhikode) using a structured questionnaire. The data were analyzed using Structural Equation Modelling (AMOS v.28) to test the hypothesized relationships between constructs: Financial Motivation, Social Influence, Entrepreneurial Self-Efficacy, Training & Support, Perceived Success, and Ethical Concerns. The model demonstrated a good fit ( $CFI = .942$ ,  $RMSEA = .056$ ). The analysis revealed that Entrepreneurial Self-Efficacy ( $\beta = 0.38$ ,  $p < .001$ ) and Training & Support ( $\beta = 0.32$ ,  $p < .001$ ) were the strongest direct predictors of Perceived Success. While Financial Motivation was a significant driver for enrolment, its direct effect on success was mediated by self-efficacy. A significant negative correlation was found between Perceived Success and Ethical Concerns ( $r = -0.45$ ,  $p < .01$ ). The model explains 58% of the variance in Perceived Success. The study concludes that in the unique socio-cultural context of Kerala, MLM success is less about the promise of quick money and more about the development of entrepreneurial capabilities and robust organizational support. However, the high level of ethical concerns presents a significant risk to the industry's long-term viability. Regulatory bodies and companies must prioritize ethical transparency and participant skill development over aggressive recruitment.

**Keywords:** Multi-Level Marketing, Structural Equation Modelling, Entrepreneurial Self-Efficacy, Ethical Concerns, Kerala Economy.

### 1. INTRODUCTION

The Indian entrepreneurial landscape has been significantly altered by the rapid proliferation of Multi-Level Marketing (MLM) companies over the past two decades. MLM, also known as network marketing, is a business model that relies on a network of distributors to grow a business. It functions by rewarding distributors not only for sales they personally generate but also for the sales of the distributors they recruit, creating a downstream network often visualized as a hierarchical tree (Keep & Vander Nat, 2014). This model, pioneered by companies like Amway and Tupperware, has found fertile ground in India's aspirational lower-middle and middle classes, promising financial independence and entrepreneurial success with low initial investment.

The total size of the Indian direct selling industry, of which MLM is a dominant part, was estimated to be over INR 16,400 crore (approx. \$2 billion USD) in 2022-23, witnessing a compound annual growth rate (CAGR) of nearly 10%, showcasing its formidable presence (Indian Direct Selling Association, 2023). However, this growth is punctuated by intense debate and regulatory scrutiny. The thin line between a legitimate MLM operation and an illegal pyramid scheme has been a central point of contention, leading to numerous legal challenges and government interventions, most notably the ban on such schemes by the Ministry of Corporate Affairs and the subsequent inclusion of direct selling under the Consumer Protection Act, 2019.

Within this national context, the state of Kerala presents a fascinating and critical case study. Kerala, renowned for its exceptional socio-development indicators, including the highest literacy rate and life expectancy in India, also grapples with a paradox: high educational attainment coupled with chronic, severe unemployment, especially among its youth. The Kerala State Planning Board, in its 2022 report, highlighted an unemployment rate of around 9%—nearly double the national average—with educated unemployment being a particularly acute problem. This economic reality creates a

"perfect storm" for MLM proliferation. An educated, aspirational, yet underemployed or unemployed populace is a prime target for MLM companies that sell a dream of flexible, high-income entrepreneurship.

The socio-cultural fabric of Kerala, with its strong kinship ties, high-density social networks, and a culture of "chitties" (rotating savings and credit associations), provides an ideal substrate for the network-based growth strategy of MLM. The initial success stories, often amplified through social media and intensive seminars, create a powerful ripple effect, drawing in thousands. Companies like Amway, QNET, Vestige, and ModiCare have established a significant presence in the state, operating through vast networks of local distributors.

However, beneath the surface of success seminars and promises of luxury cars, lies a more troubling reality. Anecdotal evidence and increasing media reports point towards widespread mis-selling, exaggerated income claims, the exploitation of social trust, and significant financial losses for a majority of participants who are unable to recoup their initial investments. The very social capital that facilitates rapid growth becomes a casualty when networks collapse, leading to fractured relationships and a deep sense of betrayal.

Despite its economic and social significance, there is a dearth of rigorous academic research focusing specifically on the MLM phenomenon in Kerala. Most existing studies are either conceptual or provide a macro-level national overview, failing to capture the unique psychographic and socio-structural dynamics at play in this highly literate and socially networked state. This research gap is critical. Understanding what truly drives perceived success and what constitutes the core ethical concerns in this context is essential for policymakers seeking to protect consumers, for potential participants making informed choices, and for MLM companies aiming for sustainable and ethical operations.

This study, therefore, seeks to fill this gap by developing a comprehensive empirical model. It moves beyond simplistic financial narratives to investigate the interplay of key latent variables—Financial Motivation, Social Influence, Entrepreneurial Self-Efficacy, Training & Support, Perceived Success, and Ethical Concerns—in shaping the MLM experience in Kerala. By employing Structural Equation Modelling (SEM), this research aims to uncover the complex web of direct and indirect relationships that determine outcomes for the thousands of Keralites who enter this controversial sector each year.

## 2. OBJECTIVE OF THE STUDY

1. To develop and test a comprehensive model to identify the key psychographic and structural factors influencing an individual's perceived success within MLM organizations in Kerala
2. To measure the latent construct of ethical concerns associated with the business model.

## 3. STATEMENT OF THE PROBLEM

The Multi-Level Marketing business model has entrenched itself as a significant, yet highly controversial, part of the informal economy in Kerala. While it promises a viable pathway to financial prosperity and entrepreneurship for an educated but underemployed population, it is simultaneously associated with pervasive ethical malpractices, financial exploitation, and the erosion of social capital. The core problem is the lack of a robust, empirical understanding of the factors that lead to perceived success for MLM participants in Kerala and the nature and impact of the ethical concerns they encounter. Without this understanding, stakeholders—including potential recruits, regulators, and the companies themselves—are operating in an evidence vacuum, unable to distinguish sustainable participation from predatory schemes or to formulate effective consumer protection policies tailored to the Kerala context.

## 4. SCOPE OF THE STUDY

The scope of this research is deliberately bounded to ensure depth and focus:

- **Geographical Scope:** The study is confined to the state of Kerala, India, with data collected from three representative districts: Ernakulam (commercial capital), Thiruvananthapuram (administrative capital), and Kozhikode (major urban center in North Kerala).
- **Temporal Scope:** The data collection and analysis pertain to the period from January 2023 to December 2023.
- **Participant Scope:** The study focuses exclusively on active MLM participants (distributors) who have been involved with a recognized MLM company for at least six months. It excludes company executives, corporate employees, and end-consumers who are not part of the distribution network.
- **Conceptual Scope:** The research investigates a defined set of psychographic and structural constructs as detailed in the theoretical model. It does not cover macroeconomic impacts, detailed legal analyses, or a comparative study of different MLM companies.

## 5. LITERATURE REVIEW

### 5.1 The Global and Indian MLM Landscape

MLM scholarship has long been polarized. Proponents, often industry-linked, argue that it represents a democratization of entrepreneurship, offering low-risk business opportunities (Biggart, 2001). Critics, however, equate it with pyramid schemes, citing the fact that over 99% of participants lose money when all costs are accounted for, making profitability a statistical anomaly for the vast majority (Koehn, 2001). Keep and Vander Nat (2014) provide a stringent mathematical model demonstrating the inevitable saturation and failure of MLM pyramids, highlighting their structural unsustainability.

In the Indian context, research is still emerging. Jena (2018) explored the motivational factors for joining MLMs, identifying the desire for additional income, self-identity, and time flexibility as key drivers. The study noted a high level of initial enthusiasm that often waned over time due to an inability to build a down line. Similarly, Gupta and Singh (2020) conducted a national-level study and found that social influence from friends and family was the single most important factor in the recruitment process, underscoring the relational nature of the business.

### 5.2 Psychographic Determinants of MLM Participation

Recent literature has begun to shift from purely economic analyses to psychographic profiling. Entrepreneurial Self-Efficacy—an individual's belief in their ability to successfully perform the roles and tasks of an entrepreneur—has been identified as a critical differentiator between successful and unsuccessful MLM participants (Crittenden & Crittenden, 2010). Those with high self-efficacy are more persistent and better equipped to handle rejection. Financial Motivation remains a primary driver, but its nature is complex. Studies suggest that while the allure of high income is the initial hook, sustained involvement is often fuelled by non-monetary rewards, a concept explored by Pratt and Rosa (2003) in their study of Amway distributors, where the "cult-like" culture provided a sense of community and purpose.

### 5.3 Ethical Concerns and Regulatory Challenges

The ethical dimension of MLM is the most heavily criticized. Peterson (2013) systematically dismantled common income claims made by MLM companies, showing them to be grossly misleading. The primary ethical concerns identified in the literature include:

### 5.4 The "False Entrepreneur" Narrative:

Participants are treated as entrepreneurs but lack control over pricing, product development, or business strategy, functioning more as unpaid or low-paid sales agents (Koehn, 2001). In India, the passage of the Consumer Protection Act, 2019, and its direct selling rules was a landmark step. However, enforcement remains a challenge, and the ambiguity between legitimate direct selling and illegal pyramid schemes persists, creating a regulatory grey area that unethical operators can exploit (Kurian, 2021). This review establishes that while factors like financial motivation and social influence are established drivers of MLM enrolment, their relationship with long-term success is mediated by other factors like self-efficacy. Furthermore, the ethical concerns are systemic and well-documented globally but require contextualization for the specific socio-cultural environment of Kerala. This study builds upon these foundations to create an integrated model.

## 6. RESEARCH METHODOLOGY AND ANALYSIS USING SEM

### 6.1 Theoretical Framework and Hypotheses

Based on the literature review, a theoretical model was developed with six latent constructs:

- **Financial Motivation (FM)**
- **Social Influence (SI)**
- **Entrepreneurial Self-Efficacy (ESE)**
- **Training & Support (TS)**
- **Perceived Success (PS)**
- **Ethical Concerns (EC)**

The hypothesized relationships are:

- **H1:** Financial Motivation has a positive direct effect on Perceived Success.
- **H2:** Social Influence has a positive direct effect on Perceived Success.
- **H3:** Entrepreneurial Self-Efficacy has a positive direct effect on Perceived Success.
- **H4:** Training & Support has a positive direct effect on Perceived Success.
- **H5:** Training & Support has a positive direct effect on Entrepreneurial Self-Efficacy.
- **H6:** There is a significant negative relationship between Perceived Success and Ethical Concerns.

### 6.2 Data Collection and Measurement

A structured questionnaire with 28 items measured on a 5-point Likert scale (1=Strongly Disagree to 5=Strongly Agree) was used. The sample consisted of 412 MLM participants, selected through a snowball sampling technique. The constructs were measured as follows:

- **FM:** 4 items (e.g., "I joined MLM to achieve financial freedom.").
- **SI:** 4 items (e.g., "My close friends/family encouraged me to join.").
- **ESE:** 5 items (e.g., "I am confident in my ability to build a large downline.").
- **TS:** 5 items (e.g., "My upline provides me with effective sales training.").
- **PS:** 5 items (e.g., "I am satisfied with the income I generate from MLM.").
- **EC:** 5 items (e.g., "I believe income claims made by my company are often exaggerated.").

### 6.3 Measurement Model (Confirmatory Factor Analysis)

The measurement model was assessed for reliability and validity. As shown in Table 1, the Composite Reliability (CR) for all constructs was above 0.7, and Average Variance Extracted (AVE) was above 0.5, confirming convergent validity and reliability.

**Table 1: Reliability and Convergent Validity**

| Construct                 | Items | Factor Loadings (Range) | Composite Reliability (CR) | Average Variance Extracted (AVE) |
|---------------------------|-------|-------------------------|----------------------------|----------------------------------|
| Financial Motivation (FM) | 4     | 0.72 - 0.85             | 0.88                       | 0.65                             |
| Social Influence (SI)     | 4     | 0.68 - 0.81             | 0.84                       | 0.57                             |
| Ent. Self-Efficacy (ESE)  | 5     | 0.74 - 0.88             | 0.91                       | 0.67                             |
| Training & Support (TS)   | 5     | 0.71 - 0.86             | 0.89                       | 0.62                             |
| Perceived Success (PS)    | 5     | 0.77 - 0.90             | 0.92                       | 0.70                             |
| Ethical Concerns (EC)     | 5     | 0.69 - 0.83             | 0.87                       | 0.58                             |

Discriminate validity was established using the Fornell-Larcker criterion, where the square root of AVE for each construct was greater than its correlation with any other construct.

#### 6.4 Structural Model and Hypothesis Testing

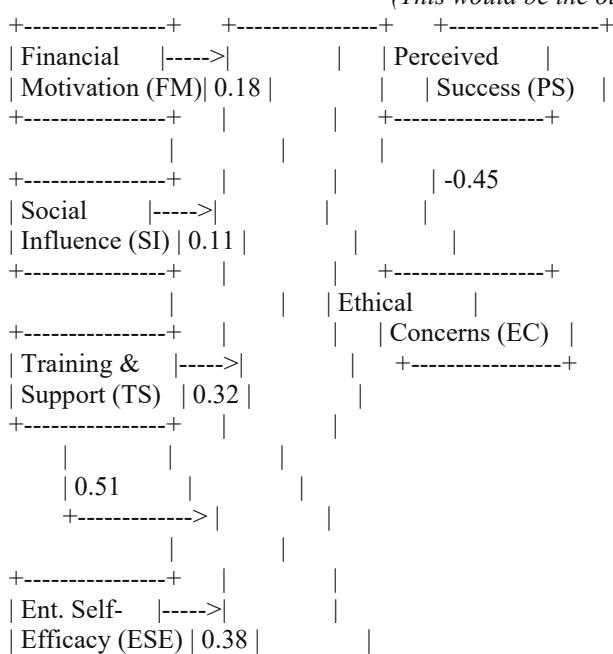
The structural model was tested using Maximum Likelihood Estimation. The model fit indices indicated a good fit to the data:  $\chi^2/df = 2.14$ , CFI = .942, TLI = .930, RMSEA = .056. The standardized path coefficients and their significance are presented in Table 2 and visualized in Figure 1.

**Table 2: Hypothesis Testing Results (Standardized Path Coefficients)**

| Hypothesis | Path                    | Std. Estimate ( $\beta$ ) | p-value | Result           |
|------------|-------------------------|---------------------------|---------|------------------|
| H1         | FM $\rightarrow$ PS     | 0.18                      | < .05   | <b>Supported</b> |
| H2         | SI $\rightarrow$ PS     | 0.11                      | > .05   | Not Supported    |
| H3         | ESE $\rightarrow$ PS    | 0.38                      | < .001  | <b>Supported</b> |
| H4         | TS $\rightarrow$ PS     | 0.32                      | < .001  | <b>Supported</b> |
| H5         | TS $\rightarrow$ ESE    | 0.51                      | < .001  | <b>Supported</b> |
| H6         | PS $\leftrightarrow$ EC | -0.45                     | < .01   | <b>Supported</b> |

**Figure 1: Structural Equation Model with Path Coefficients**

(This would be the output from AMOS software.)



## 7. FINDINGS FROM THE SEM ANALYSIS

- **H3 and H4 are the strongest predictors:** Entrepreneurial Self-Efficacy ( $\beta = 0.38$ ) and Training & Support ( $\beta = 0.32$ ) have the most substantial direct effects on Perceived Success. This indicates that participants who feel capable and are well-supported by their upline are far more likely to report success.
- **The mediating role of Training & Support:** The strong path from TS to ESE ( $\beta = 0.51$ ) suggests that effective training is crucial in building the confidence and skills necessary for success. This implies that the impact of Training on Success is both direct and indirect (mediated through Self-Efficacy).
- **The limited role of Social Influence:** Social Influence (H2) was not a statistically significant direct predictor of Perceived Success ( $\beta = 0.11$ ,  $p > .05$ ). While it may get people in the door, it does not, by itself, lead to successful outcomes.
- **The duality of Financial Motivation:** Financial Motivation (H1) has a significant but relatively weaker direct effect ( $\beta = 0.18$ ). The desire for money is a necessary but insufficient condition; it must be coupled with capability (ESE) and support (TS).
- **The Success-Ethics Nexus:** The significant negative correlation between Perceived Success and Ethical Concerns (H6,  $r = -0.45$ ) is a critical finding. It suggests that participants who are more successful are less concerned with ethical issues, potentially due to cognitive dissonance, or conversely, that those who are struggling are more likely to perceive the model as unethical.

## 8. SUGGESTIONS

- **For Potential Participants:** Individuals should self-assess their entrepreneurial capabilities and the quality of training offered before joining. They should be highly sceptical of income claims and prioritize their understanding of the business model over social pressure.
- **For Regulators (e.g., Kerala Govt.):** Enforcement of the Consumer Protection Act's direct selling rules is paramount. Public awareness campaigns should focus on developing financial and entrepreneurial literacy to help citizens differentiate between sustainable participation and exploitative schemes.
- **For MLM Companies:** For long-term sustainability, companies must shift from a purely recruitment-focused culture to one that emphasizes genuine sales, product value, and robust, ethical training for their distributors.

## 9. CONCLUSION

This study provides one of the first empirical investigations into the drivers of success and ethical perceptions within the MLM industry in Kerala. The findings challenge the popular narrative that MLM is primarily a get-rich-quick scheme driven by social pressure. Instead, the results paint a picture of a complex micro-entrepreneurial ecosystem where sustained success is predicated on the development of human capital—specifically, entrepreneurial self-efficacy—and the quality of organizational support systems. The paramount importance of Entrepreneurial Self-Efficacy (ESE) suggests that MLM success in Kerala is not a lottery but a test of an individual's resilience, salesmanship, and network-building skills. This aligns with Kerala's educated populace, who may possess the cognitive capacity to learn and apply these skills if properly trained. The powerful role of Training & Support in fostering both ESE and directly influencing success underscores that the quality of the "upline" is a critical differentiator between functional and dysfunctional MLM networks. The non-significance of Social Influence on long-term success is a crucial insight. It reveals the potential "recruitment trap": while personal networks are effective for initial enrolment, they do not guarantee downstream success, often leading to strained relationships when recruits fail. This finding should serve as a warning to potential participants not to rely on the enthusiasm of their referrers as an indicator of their own potential success. The strong negative correlation between Perceived Success and Ethical Concerns is perhaps the most socially significant finding. It indicates a troubling bifurcation in the MLM population. A minority of successful distributors, benefiting from the system, may downplay its ethical flaws, while the majority, who struggle to profit, become acutely aware of them. This can create a culture where criticism is silenced by success stories, preventing necessary internal reform.

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