

Corporate Governance in Network Marketing Organizations: The Role of Ethics and CSR

Venugopal Kummamuru

Abstract—Corporate Governance (CG) is of utmost importance for running a company ethically. It is essential for the growth and success of the corporation. It is intended to increase the accountability of an organization to the larger context of the business environment. The general principles of CG include and are related to Shareholder recognition, Stakeholder interests, and focus on Corporate Social Responsibility (CSR), Clear Board responsibilities, Ethical behavior, and Business transparency. Network Marketing Organizations (NMOs) focus on marketing through direct-sales using people who are associated with the organization but are not their employees. This paper tries to study the importance of Ethics and CSR in an NMO and suggest a basic guideline for CG in NMO(s). This paper could be used as a basis or starting point for conducting an in-depth research to understand the difference in CG practices between NMO(s) and other organizations and define a standard set of guidelines for CG practice.

Keywords—Corporate governance, corporate responsibility, direct selling, network marketing.

I. INTRODUCTION

CG is of utmost importance to a company. As stated by Sun Leon in his article in Business Directory “A corporation without a system of CG is often regarded as a body without a soul or conscience”[1]. Good CG enhances the reputation of a corporation and contributes to its growth. CG is the way a corporation polices itself. It is a method of governing the company (akin to an independent country) with its own custom, policies, and laws, which are applicable to all employees independent of their level or position. CG is intended to bring in and increase the accountability across all levels of organization so as to avoid likely major issues or problems that may come up with time. The general principles of CG include and are related to

- **Shareholder recognition** for maintaining an organization’s stock price. Shareholders are one of the key stake holders in the organization. Good CG seeks to ensure minority shareholders voice is also heard in meetings and their participation is complete. This allows the minority shareholders to be a part of any major decision that is taken.
- **Stakeholder interests** should also be recognized by CG. This helps in establishing a positive good relationship between the organization and the stakeholders. In the current age CSR, this also plays a key role in establishing the credentials of a firm.

- **Clear Board responsibilities** – To establish a common organization vision for future and share it with all shareholders.
- **Ethical behavior** is another key principle of CG. Code of conduct of ethics should be established at the board level. Violations on this front in favor of higher returns or profits could result in civil and legal issues over a period of time.

II. CORPORATE RESPONSIBILITY AND WHY IT MATTERS FOR GOOD CG

An organization having sustainable business can contribute to the well-being of the society. The well-being of society becomes a responsibility of the organization. Management of this Corporate Responsibility needs sound governance. To build a strong, sustainable business, it is necessary to accord importance and place the three P’s (People, Products, and Performance) at the center of everything that is done by any organization. This is so because the three Ps are essential for the success and growth of any business. Two of the three Ps (Product and Performance) are dependent on the third P (People). People drive both the Performance and Product quality. Success is achieved when the aspirations and expectations of people are met by the organization or institution they are associated with. Every organization is dependent on the society and has a responsibility to the society as society/people are one of the key stakeholders of every organization. This responsibility of organization is termed as Corporate Responsibility. When the organization fulfils its responsibility to the society, it automatically creates a path for its growth and success. The organization can fulfil its responsibility only when it is governed properly.

III. NMOs

NMOs are different from the regular organizations. They market their products to consumers through direct-sales using individuals who have a business relationship with the organization... Majority of these individuals are not employees of the organization. Network marketing, also known as multi-level marketing is a legitimate business strategy though it is controversial. There are a number of organizations which are operating in this space and have been successful.

This paper tries to study CG practices of successful networking marketing organizations and identify the key governance factors for NMO(s). This allows in providing a basic guideline for CG in NMO(s).

Venugopal Kummamuru, MD, HireRedson Technologies, 1-2-411, Gagan Mahal Colony, Hyderabad India, Pin 500029, (phone: +91 9849058217; e-mail: vkummamuru@gmail.com).

A. NMO Success Criteria

There is a mistaken impression or notion that the direct marketing organizations are mostly successful. The basis for this impression is the expectation of easy money through volume selling by involving individuals and communities. It is assumed that the multiplicity of the sales would be proportional to the number of representatives/distributors recruited for selling. While this assumption would be partly valid there are many other factors that are important for the success of an NMO. This is so because an NMO is a people intensive and dependent business corporation. The factors like quality, price, people trust and acceptability are critical for the success of an NMO.

The success of an NMO business practice depends on the confidence and trust that consumers place in the NMO's distributors and products. An NMO while gaining the confidence and trust of the consumer also needs to conform to consumer protection legislations prevalent in different parts of the globe where they are operational. One of the key approach to gain confidence of these groups is through demonstrating their responsibility to society. Their actions should be reflective of the benefits accrued to the society at large. This is only possible by increasing the level of protection available to consumers and distributors who are the key stake-holders of an NMO. Simultaneously the NMO also needs to work on increasing the awareness levels of the consumers in its organization and products. All the above are possible when developing Corporate Responsibility becomes an integral part of the organization and its principles are built into their business models. This would help in gaining the trust of the stakeholders as they develop over a period of time the confidence that they are dealing with an ethical, trusted organization. The backbone of a NMO business are people – whether they are employees of NMO or people who distribute their products or belong to the community (i.e. consumers) in which the NMO is operational.

IV. SURVEY OF CSR ACTIVITIES OF NMOs

A. Amway

Amway is a direct-selling or network marketing giant (direct seller of household, personal care, nutrition, and cleaning items). The global corporate headquarters of Amway is located in Ada, Michigan in the United States. It is a privately-owned family business whose founders are the DeVos and Van Andel families [2]. Amway is built on family values – taking care of its people, supporting the community and protecting the environment. Using its direct selling business model, it has and is supporting over three million distributors worldwide. Amway's objective is to create a sustainable business that people trust – day-in, day-out.

Many businesses struggled during the economic downturn in Europe and the political turmoil in the Eurozone. However, Amway has grown from strength to strength. One of the reasons for Amway's success was their placing corporate responsibility at the heart of their business model.

Amway considers its multicultural environment as one of its core strengths. Amway strives to ensure that all its employees have similar opportunities, regardless of age, gender, religion or race.

Franz Ritter Vice President Human Resources, Amway Europe, India & South Africa says - *“Our relationships are based on values such as transparency, trust and honesty. As we have continued to grow and evolve through tough times, we have worked to ensure we show the utmost respect to our people, our organization and the family values that are at the core of the way we do business.”* [3]

Amway uses a direct selling business model and encourages self-employment and self-empowerment, which gives confidence and hope to individuals in confronting the challenges in their lives. The company's success depends on setting up Independent Business Owners (IBOs) or distributors to sell its name-brand products and build its network.

Amway's strategy for sustainable business lies in working closely with its stakeholders. The key stakeholders include their consumers, employees, distributors, and policy makers of different geographies where they operate. Amway gives importance to listening to the views of its stakeholders and how it is performing for them. The subjects include workplace, people satisfaction, environmental protection and their commitment to helping local communities – particularly children and the vulnerable. Amway has a transparent process for handling complaints. This helps in proper enforcement of contracts, which in turn helps in protecting consumer and distributor interests besides the strong ethics and value system of Amway.

Corporate responsibility involves both taking actions and then reporting about the same. Besides trying to fulfil its corporate responsibilities, Amway also reports on its actions year-on-year under the internationally recognized Global Reporting Initiative framework. Amway internally employs its own code of conduct, it also commits itself to the consumer Codes of Practice set out by the World Federation of Direct Selling Associations and the other Direct Selling Associations across Europe. The Direct Selling Association's codes of conduct address the obligations of its members to direct sellers and its consumers (e.g. Amway's obligations to Amway distributors and consumers).

1) CSR

Amway's global Corporate Responsibility Strategy is focused to help people live better lives and create a change with a caring touch thru their family of brands. Amway understands the need and importance of Corporate Responsibility; it tries to build its principles into its business model, which gives confidence to its customers that they are dealing with an ethical, trusted company. Amway's importance to responsible business practice is reflected in the statement, “Amway conforms to EU and national consumer protection legislation and is a leader in establishing Codes of Conduct and increasing the level of protection available to consumers and distributors” [4]. Amway treats the three Ps (People, Performance, and Products) as the pillars of its

business for its success. Amway aims to provide life-long learning opportunities to its communities and support the three pillars of their Corporate Responsibility activities – People, Products and Performance. Amway's involvement with each of the three P's is briefly presented below.

2) People

Amway believes in people (both within and outside the organization) and strives for their growth and development. It understands that the growth and success of its employees is the trigger for the success and growth of the organization. For the growth and development of its employees and distributors, Amway supports its employees and distributors with a variety of training programs catering to individual needs and self-development besides teaching how to run business efficiently, ethically and successfully.

3) Products

Amway offers over 450 products, including nutrition and wellness, beauty and household products, which are of high quality. It tries to make a difference through its products, which are aimed towards bettering the lives of people and communities. Amway tries to achieve through sustainability of their products at both homes and workplaces. An example of this is their product 'NUTRILITE Little Bits', which is a food supplement containing essential vitamins and minerals designed to address the problem of chronic malnutrition faced by children under five years of age in the developing world.

Performance: Amway considers performance (financial or otherwise) to be fundamental to whether, they as a company, meet best practices in sustainable management, production and distribution. Examples of above are; Amway's business has grown strongly over years despite many ups and downs in world economy. Amway Austria, Belgium, Germany and the Netherlands received Total Zero Certificate from DPD (an express parcel company). "Total ZERO certifies that all parcels delivered are carbon-neutral, at no extra cost to the consumer" [5].

B. Herbalife

Herbalife is a multi-billion US\$ global nutrition (consumer nutritional supplement) company that has been changing people's lives with great products since the time 1980 when it was started. Its core products are focused toward maximizing health and fitness of individuals by providing the right nutrition. Herbalife is a successful company, which adopts good practices for the growth of its business

1) CG & Social Responsibility

Herbalife while fulfilling the need for transparency requirements focuses on the ensuring accountability and economic efficiency for its stakeholders. Herbalife has a CSR program, which is best summed up by its value, 'We do the right, honest and ethical thing'. The CSR program of Herbalife includes how they do business to the commitment they make to their communities, to how they treat their employees and independent Distributors. Herbalife works towards upholding

highest ethical standards in their operations and are very particular about this. Amongst others it strives and ensures in consistent enforcement of compliance regulations, providing a level playing field to all its independent Distributors, and providing periodic ethical training to its employees globally. It works towards enforcing stringent ethical guidelines to protect consumers and distributors from unethical or errant behaviors of certain distributors. Herbalife provides funding to charitable organizations, which are involved in improving the nutrition requirements of children-at-risk all over the globe and taking care of them. Herbalife is also supports disaster relief efforts in different parts of the globe. Herbalife facilitates the activities through its Herbalife Family Foundation) and its Casa Herbalife program,

C. LR Health and Beauty

LR Health & Beauty Systems is a company that has been founded in 1985 and become a thriving company over the years. It is been one of the most successful enterprises in European direct sales specializing in cosmetic and nutrition products. LR's success is based on its five unique success factors, defined values and a clear vision. It considers, Top Product Quality, Star concept (cooperation with celebrities), Car Plan, Transparent Bonus System, Training & Service are considered as the 5 key pillars of their success.

LR states its aim and duty is to give every individual on the planet the chance to better their quality of life. LR says for it and its partners, people are paramount to its business and its values are based on Passion, Trust and Responsibility. The culture of LR as stated is "LR's culture is value-orientated and responsible with focus on people. LR's Passion is for people, the products and the business"[6].

LR and its sales partners accord highest importance to people (consumers). While LR is passionate about making other people successful, its actions focus on the success of its partners. The successful LR partners have recognized that: "LR is not about work – it is a way of life".

LR feels that, Trust is essential at every level - suppliers, cooperation partners, employees and of course sales partners. LR is fair, transparent and honest in its dealings and does not conduct business at people's expense, but does together with and for people. At LR, everyone who shows commitment and good has the opportunity to grow to the top position, independent of his/her qualification and their date of joining the company.

Responsibility is stated by LR as; we act like good citizens towards the environment. LR products are quality certified and meet the very highest standards. LR thinks locally and takes responsibility for the people and communities where it operates despite being a leading global organization.

LR has a defined 'code of conduct' for its partners. This 'code of conduct' governs the behavior and relationship of LR Partners towards its customers, other LR Partners, MLM companies and sets a benchmark for their fair interaction with one another. The LR 'code of conduct' provides a clear presentation of LR's values. Few of these are presented below as are stated by LR.

Conduct towards customers is stated as; “LR Partners shall offer customers the best possible service” [7]. The guidelines or specifications for providing best possible service to customers include; usage of clear and fair sales methods, providing accurate product information to the customers, respecting customer privacy and safe-guarding the private information of the customer.

Conduct of LR Partners towards other LR Partners is very important for the organization growth and success. This conduct and is stated as; “the individual structures are governed by healthy, fair competition, which is marked by mutual respect” [8].

Conduct of LR Partners towards other MLM companies is stated as; Respect shall be demonstrated to all other MLM companies and anticompetitive practices shall be prohibited.

Conduct of LR Partners towards the company as a whole is; “LR Partners shall display loyalty to their company, use clean and fair work methods, will represent it appropriately and honestly at all times”.

D. Avon

Avon Products Inc. (Avon) is a leading global beauty company headquartered in New York City, USA with over 40,000 employees worldwide. It is one of the world's largest direct sellers with over \$10 billion sales annually. Avon was founded in 1886 by David H. McConnell. Avon products are marketed to women principally through direct selling by Avon in over 100 countries. Avon has more than 6 million direct sales representatives and has sales operations in 62 countries and territories—including the United States.

Avon's founder pledged that Avon would “contribute to the well-being of society and the environment in which it functions” [9]. The pledge continues to be fundamental today also for their success. Avon is guided by its core values and principles, which include earning the trust of stakeholders by exhibiting integrity, acting ethically, and embracing transparency. Avon considers People, Philanthropy, and Environment sustainability as three pillars around which their corporate responsibility activities are spread. These pillars are:

1) People

Avon is known as the company for women. It has a significant number of women who work as its Independent Sales Representatives. Avon recognizes this and commits to advancing its women work force by helping them achieve economic independence.

2) Philanthropy

Avon is involved in philanthropic activities and these are related to women causes. This is evident from their statement, “We empower millions of women around the world financially through our earnings opportunity and support their health and safety through the Avon Breast Cancer Crusade and Avon's Speak Out Against Domestic Violence initiative” [9]. Avon has raised more than \$957 million through programs in over 50 countries for the above causes.

3) Environmental Sustainability

Avon is involved actively in working towards ending deforestation through reforestation. This is undertaken by Avon through its internal policies and raising funds for reforestation. It has contributed significantly to improve the green cover (forestation) through their ‘Hello Green Project’, which has helped Brazil's Atlantic project. Its goals for 2020 include reduction of greenhouse gas, water intensity and waste across Avon's operations.

4) Stakeholder Engagement

Avon continuously engages its stakeholders and values their input. The stakeholders include, von Independent Sales Representatives, Associates and customers to advocacy groups, philanthropic partners and investors. For example, Avon integrates stakeholder feedback into business strategies and operations to foster improvement in the areas of sustainability and corporate responsibility. Avon's key stakeholder groups include; Avon Associates, Avon Independent Sales Representatives, Customers, Shareholders, and Non-profit and Advocacy groups. Avon takes numerous steps to engage with them continuously.

On the ethics front, it is driven by its senior management, which continuously supports the ethics and compliance program. This is reflected in the quick action against a firm, which had organized the breast cancer walk when it was brought to their notice that the funds raised were spent more on administrative activities than the actual cause.

V. ANALYSIS

The data collected is related to three NMO Giants from the US and the largest NMO from Europe. The data includes earnings of each of the organization over the last few years, the CSR ratings, the qualitative aspects like the ‘Adherence to Governance Principles’, ‘Fulfilment of CSR Parameters’, and ‘Stakeholder engagement status’. The data related to the earnings is taken to understand the trend and the factors responsible for the variations in earnings. The trend of CSR ratings along with the financial trend helps in understanding the relationship between the two. The data collected is presented in the following tables.

The qualitative factors help in understanding the practices and aspects related to CG of these organizations and the reasons for the success of these organizations. Additionally, the data also allows in understanding the factors, which are critical to their success based on the nature of their business. This combined with the above analysis helps in getting a basic understanding of the factors that are important for the success and sustainability of an NMO.

TABLE I
SALES EARNINGS (2012-2015) IN US\$ BILLIONS [10]

<i>Sales Earnings</i> Organization	2012	2013	2014	2015
Amway	11.3	11.8	10.8	9.5
Avon	10.7	09.95	08.9	6.16
Herbalife	04.1	04.8	04.47	4.47
LR Beauty & Health	00.313	00.323	00.306	0.303

Table I presents the sales earnings for four consecutive years of the four leading NMOs taken from directsellingnews [9]. It is observed that there is a dip in the sales over the last two years and the trend has been consistent across all the organizations. The global economy over the last few years has been slowing down impacting businesses and organizations across the globe. Hence, the dip in sales could be attributed to the difficult economic times across the globe and not due to change in governance practices.

TABLE II
CSR RATINGS [11]

Organization	Community	Employees	Environment	Governance
Amway	66	78	68	55
Avon	61	62	66	50
Herbalife	55	56	47	46
LR Beauty & Health	NA	NA	NA	NA

Table II presents the CSR ratings of the organizations Amway, Avon, Herbalife, and LR Beauty & Health. The CSR ratings for the organizations on different aspects are taken from the online source of CSR hub [10]. On observation, it is evident that people related aspects rank high. It also reflects that trust an organization enjoys with the people (employees and communities/consumers) is a key factor organization needs to ensure that all associated people trust the organization. The trust-factor, benefits to the community (reflected in the environment factor) appear to count for the success and sustainability of the organization.

TABLE III
GOVERNANCE PRINCIPLES AND PARAMETERS FOR SOCIAL RESPONSIBILITY

Governance Principles	Parameters for Social Responsibility
Shareholder Recognition	Integrity
Stakeholder Interest	Leadership
Clear Board Responsibilities	Ownership and Responsibility
Ethical Behavior	Passion
Business Transparency	Trust

The generic governance principles and the parameters or aspects for social responsibility are listed in Table III for information.

TABLE IV
ADHERENCE TO CG PRINCIPLES

Organization	Shareholder Recognition	Stakeholder Interest	Clear Board Responsibilities	Ethical Behavior	Business Transparency
Amway	Y	Y	Y	Y	Y
Avon	Y	Y	Y	y	Y
Herbalife	y	Y	Y	Y	Y
LR Beauty & Health	Y	Y	Y	Y	Y

Y: indicates relatively higher degree of Adherence
y: indicates relatively lower degree of Adherence

Based on the study carried out, the author presents in Table IV the adherence of each of the organizations to the governance principles. While the governance principles seem

to have been adhered to by the organizations the degree of adherence is varied. The classification based on degree of adherence has not been carried out here. However, from the list it becomes evident that the stakeholder interest, ethical behavior and business transparency appear to be critical for the organizations growth and success.

TABLE V
FULFILMENT OF PARAMETERS FOR SOCIAL RESPONSIBILITY

Organization Aspects	Amway	Avon	Herbalife	LR Beauty & Health
Integrity	Y	Y	Y	Y
Leadership	Y	Y	Y	Y
Ownership	Y	Y	Y	Y
Passion	Y	Y	Y	Y
Trust	Y	Y	Y	Y
Responsibility	Y	Y	Y	Y

Y: indicates relatively higher degree of fulfilment
y: indicates relatively lower degree of fulfilment

Table V presents the parameters related to social responsibility and the organizations with the cells highlighting if the parameter is a focus area for the organization. The table highlights the focus of importance of the parameter but does not highlight the degree of importance.

TABLE VI
STAKEHOLDER ENGAGEMENT STATUS

Organization	Associate OR Employee	Sales Reps OR Distributors	Customer OR Consumer Satisfaction	Other external groups
Amway	Y	Y	y	y
Avon	Y	Y	Y	Y
Herbalife	Y	Y	y	y
LR Beauty & Health	Y	Y	Y	y

Y: indicates relatively higher degree of engagement
y: indicates relatively lower degree of engagement

How do the NMOs engage with their stakeholders is another important question. This is important as the engagement with stakeholders is key for the success, growth and sustainability of an organization. From the study it becomes evident each of the organization engages with the stakeholders, however the degree of engagement is different.

VI. CONCLUSION

The key governance principles as stated earlier include shareholder recognition, stakeholder interests (a positive and good relationship between the organization and the stakeholders is important in NMO), clear board responsibilities, ethical behavior (another key principle for NMO- code of conduct of ethics should be established at the board level), and business transparency.

From the study of an NMO and its operations following points become evident.

- focus is more on people (employees, distributors, and communities of operation)
- focus is on commitment and responsibility to the well-being and growth of society
- focus is on gaining the trust of stakeholders (consumers)

- focus is on the quality of the product
- focus is on conformance to legal requirements of respective countries

Recognition of an NMO as an ethical organization interested in the well-being of its stakeholders (associates and consumers) is critical to its success. These are reflected in the commitment of the organization to society and the corporate responsibility in meeting these commitments. The other factors like the quality of the product, conformance to legal requirements are important but are considered as secondary. So the governance principles which are more important than others are stakeholder interests, clear board responsibilities and ethical behavior.

The findings of this paper could be used as a basis for conducting an in-depth research to understand in detail the differences in CG practices between NMOs and regular corporations and come up with a standard set of guidelines for all corporations with a weightage given to different factors based on the nature of the organization. This would provide a kind of guideline for CG practice in organizations.

REFERENCES

- [1] Leo Sun, Why is Corporate Governance Important?_‘Business Dictionary’, <http://www.businessdictionary.com/article/618/why-is-corporate-governance-important/>
- [2] <<http://www.amway.com/about-amway/our-company/>>, Web, 23 April 2016
- [3] Amway Corporate Responsibility Report (2012), ‘People’ pp 18
- [4] Amway Corporate Responsibility Report Europe (2013), ‘Sustainability Report’ pp 10
- [5] Amway Corporate Responsibility Report (2012), ‘Sustainability Report’ pp 5
- [6] “Values”, <<https://www.lrworld.com/en/values/>>, Web, 25 April 2016
- [7] “Ethics”, <<https://www.lrworld.com/en/company/success-concept/code-of-ethics/>>, Web, 25 April, 2016
- [8] Avon Corporate Responsibility 2013 Report (pp 54-55, p.2).
- [9] “About Corporate Responsibility at Avon”, <<http://www.avoncompany.com/corporate-responsibility/about-cr/>>, Web, 14 April 2016
- [10] <<http://www.directsellingnews.com/>>, Web, 26 April 2016
- [11] <https://www.csrhub.com/CSR_and_sustainability_information/>, Web, 27 April 2016