

MANAGERIAL FUNCTIONS OF ORGANIZING AND LEADING PEOPLE IN MLM ORGANIZATIONS AND THEIR MANIFESTATIONS IN HISTORICAL SCHOOLS OF MANAGERIAL THINKING

Zita Košnarová

Abstract: *The article looks into managerial functions of organizing and leading in multilevel marketing (MLM) organizations, focusing on the creation of organizational structures and the style of leadership. Paper is trying to identify what historical trends of managerial thinking these functions are derived from and what other trends influenced them. The functions are studied in a concrete MLM organization in which the organizational structure and the style of leading people are defined. The article determines specifics typical for MLM organizations in the sphere of organizing and leading. Also, it identifies the activities of the manager including the overlapping of individual managerial functions. On the basis of comparison it is then possible to find theoretical assumptions that are applied in the practice of MLM organizations.*

Keywords: *Multilevel Marketing, Organizing, Leading, Organizational structures, School of Managerial Thinking.*

JEL Classification: *M10.*

Introduction

Multilevel marketing (MLM) or network marketing is a widely used term nowadays. There are many organizations on the market that use this approach to distribute products and expand sales network. The history of multilevel marketing and its principles are known. However, much less attention is paid to the theoretical background of the management of such organizations and their distributors. The objective of this article is to determine historical origins of the managerial functions of organizing and leading people (namely, the original models for the creation of organizational structures and the style of leadership) in schools of managerial thinking, and, on this basis, to analyse managerial functions in MLM organizations in the course of work of their distributors, and to determine what historical trend of management has been influencing the organizing and leading of people in MLM organizations. Meeting this objective will lead to the enhancement of the theoretical basis for multilevel marketing. These managerial functions have been studied in a concrete MLM organization, which has been active on the territory of the Czech Republic for a long time and does business in the manufacture and selling of dietary supplements and cosmetic products.

1 Statement of problem

At the beginning it is necessary to define managerial functions, focusing on the functions of organizing and leading people, which will be projected onto the development of individual schools of managerial thinking.

1.1 Managerial functions

The arrangement of managerial functions can be viewed from many perspectives. In this case we use the classification of H. Koontz and H. Weihrich [12] who divided managerial functions into planning, organizing, selection and deployment of workers, leading and supervision. The article focuses on the organizing and leading of people. The function of organizing represents the assigning of tasks to the members or sections of an organization and the coordination of their activity. This function concerns the arrangement of relations among individual sections of the company. Thus the goals of organizing mainly consist in creating an organizational structure and in adapting the organization to new conditions. According to Bělohávek [1] organizational structures may be divided into line organizations and line-staff organizations, and according to their activity into functional, functionalist, divisional, mixed, procedural, matrix-based and project-based organizations.

Managing people is a process via which subordinate workers and their activities are directed towards fulfilling a task while motivation plays a supportive role. One of the characteristics that determine the manager's attitude is the leadership style. The authoritative style includes executives who concentrate powers and decision-making in their hands. The democratic style allows for a certain part of the powers to be delegated to lower levels of the hierarchy while responsibility of the leader is preserved as far as final decisions are concerned. The liberal style ranges from the passive style, when the executive's activity in leading people is rather limited, over the liberal style allowing subordinates to participate strongly in decision making, to the laissez faire style, which represents the complete absence of any interventions. [13, 5]

1.2 Organizing and leading in historical schools of managerial thinking

Historical schools and management theories are described in various ways in the specialized literature. This article adopts the view proposed by Porvazník [20] who classifies these schools into following categories.

1.2.1 *Scientific management*

The first period approaching management as a scientific discipline was the period of *scientific management*. Frederick Taylor thought of the management of people in scientific terms, focused on productivity and examined what the reasons for varying productivity of workers are. The characteristic features of leading people are: [2]

- Defining the working procedure according to the best worker,
- use of the wage based on performance in order to motivate workers,
- supervision of the observance of a defined working procedure,
- workers job is not thinking but just performing what they are expected to do.

These characteristic features of the scientific approach manifested themselves in the increasing productivity and effectiveness of individual activities. An important element was the supervision over workers and their performance. The leading of people was executed without emotions with a strictly determined approach. [2] The authoritative style of management is demonstrated here to a wide extent. [3, 22] Taylor's approach also has an effect on the organization of the company. Taylor formulated the functional type of the organizational structure that is the basic organizational form. Under such structure workers form groups based on the similarity of their tasks, skills or activities. The structure is grounded in the division of individual units of the company according to specializations.

However, instead of one superior there are several superiors who are entitled to make decision. [4]

Henry Fayol, unlike Taylor who focused on examining manual professions, was concerned with the activity of executive workers. He defined five functions of administration (forecasting, organizing, commanding, coordinating, controlling) and fourteen principles of successful management. The ones concerning the organizing and leading of people included, for instance, the principle of centralization, unification of management and supervision, the principle of a single superior, the creation of a clear hierarchical line of superiors and subordinates, and fair rewarding. [20] Fayol recommends horizontal division of labour according to types of activities and vertical division of labour according to levels of management. The functionalist type of the structure was expended with so-called Fayol's transition bridge, which we call the managerial staff nowadays. [24]

The fixed hierarchical line of power and the clear determination of standards, rules and powers were principles recognized also by Max Weber. His bureaucratic model of organization is based on the following processes: [20, 21]

- Leadership is impersonal, require authority and grounded in objective rules,
- motivation focuses on physical and economic needs,
- the hierarchy of rights and obligations is precisely defined by the structure.

The classical theory of management is, as to the managerial function of planning and leading, characterised by several elements proposed by Taylor, Fayol, as well as Weber, despite partial differences in their views. The organization is understood on the formal basis, it is centralised and forms a self-contained whole in which the activity of employees is governed by standards and rules. Their observance is strictly required and supervised, which requires the authoritative style of leadership. [21]

1.2.2 Behaviourist management

A new trend that occurred in the course of the twenties of the 20th century focused on psychological and social problems of the workers. This line of thinking presents the employee as a human being influenced in their performance by many more factors. It was Abraham Maslow who came up with the idea that the employee is not limited to material needs and the need to earn money but, at least with some workers, the opportunities to satisfy one's social needs and achieve self-fulfilment are of significant importance for their performance. [1]

Douglas McGregor was concerned with the very issue of the man's attitude to their work and their motivation for it. The assumption that people are forced to work only due to their economic needs and are not in fact interested in their work is derived from the theory X. The main assumptions of this theory are: [2]

- People do not want to work and are essentially lazy,
- they are not able to maintain work morale, to act independently and responsibly,
- they are forced to work by economic motivation,
- workers are not able to control themselves and their work has to be supervised.

This is an authoritative style where power and all decisions are concentrated in the hands of the superior. Strict supervision over work and over the motivation to work, either

a positive one (a reward) or a negative one (the threat of a penalty), forms the basis of this type of management. The organizational structure is grounded in the centralization of power, clearly set rules and the hierarchy between superiors and subordinates.

The theory Y is derived from the belief that workers have a positive attitude to work, are able to control themselves and have higher needs that often relate to the work itself. The leading of people is grounded in inspiration, support, stimuli, creativity and listening to other people. The theory Y is based on the following: [2]

- Work is natural for mankind and workers are responsible and self-reliant,
- work means satisfaction not only of economically motivated needs,
- workers are able to make own decisions and motivation based only on economic stimuli and supervision over workers is not the basis of management.

The leadership style adopted according to the theory Y maybe democratic or even liberal when the superior is willing to delegate part or all of their responsibilities to their subordinates. However, similarly as with the theory X, the theory Y cannot be applied in general. A certain group of workers is not capable of self-control and therefore the application of the theory X is favourable. On the other hand in theory Y for instance in the case of tasks that are generally disliked the theory X is effective. [2] Organizing and powers according to the theory X are centralised with clearly set competences, as is the case with the relationship of superiority and inferiority. Based on the characteristics specified by the theory Y, it is possible to adapt the organization in the way that it is not strictly based on a single leader and allows for decentralization, teamwork on projects and freedom for creativity and decision making. Therefore the organization need not be strictly hierarchical as the theory X requires.

1.2.3 Modern management

After the Second World War the interdisciplinary approach to management gains prominence, this is mainly attributable to technical development. In the sixties the first proposals for a new solution to the organizational structure occur since the most common form of management by then, i.e. line-staff management, had proved to be unsuitable for the organizational arrangements of new forms of management. The utilization of information systems and computer technology began to create new opportunities for the application of Fayol's transition bridge. Line leaders and staff specialists began to cooperate closer which resulted in the diversification of responsibility and in creation of structures with shared responsibility accompanied with the absence of the traditional line hierarchy and led to the creation of other structures, such as the network structure, the matrix-based structure, the project-based structure, the team structure, the fractal structure and the procedural structure (so-called procedural amoebas). [1, 6] The line may be partially preserved in such types of organisations; the new forms constitute a supplementary structure for concrete, possibly temporary project or a concrete task. The management of people in such organizational structures allows for the preservation of superiority and inferiority in the basic structure, however the aforementioned new forms of organizational structure often apply and require the liberal style of leadership and the decentralization of decision-making powers, responsibility and the fragmentation of competences. [6]

1.2.4 Empiric management

Empiric management is related to the analysis and evaluation of findings from managerial practice. The main objective of this orientation is the development and determination of concrete recommendations for managerial activity based on the study of practice. Proponents of this approach therefore processed substantial experience and proposals for solutions of real problems in concrete corporations. The ability to give a true practical picture of the problem and react to it in advance is the objective of this school of management. [20] An important representative of this approach is P. F. Drucker who made a significant contribution in the period in the form of the MBO technique (Management by Objectives). The basis of this technique is to set goals that shall conform to the SMART rule. Organizations and people are then controlled and evaluated on the basis of these goals. The evaluation of goals achievement is used to draw conclusions within the entire hierarchy of management. [21] As far as the approach to leading people is concerned, empiric management focuses on informal styles of management. The proponents of empiric management often refuse to get closer to the authoritative style of leadership and prefer more liberal and informal styles of management in organizations and less intense supervision. [20]

1.3 Multilevel marketing and organizational structure in MLM organizations

Since the article is concerned with multilevel marketing it is necessary to explain what multilevel marketing is and what types of organizing exist in MLM. There are plenty of companies producing and distributing products for very different people's needs. Firms and companies must invest huge sums of money into means of massive promotion so that people discover a new product was launched. Therefore, it is natural that some firms look for different ways how to spread information about new products without high promotion expenses. Particularly multilevel marketing characteristically uses tools of marketing communication such as direct or personal sale, and these tools significantly saves expenses for spreading brand and product awareness. [10]

Fujii and Taji [8] describe multilevel marketing as a sort of business that has a unique system. All members who are also customers present products to acquaintances and recruit them into the business network. They also highlight that the organizations dispose of social community character and structure geared towards outward openness.

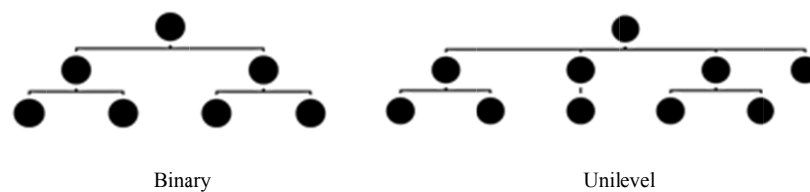
According to Olar a Minculete [17] the term of multilevel marketing stands for a term that describes a marketing structure used by some companies as part of their overall marketing strategy. The structure is designed to create a marketing and sales force by compensating promoters for sales and for creating a down line of distributors and hierarchy of multiple levels of compensation in the form of a pyramid. They also emphasize the importance of word of mouth communication as a basic part and main tool of MLM.

Hwee a Mun [9] define MLM as a combination of transactional and relationship marketing. Transactional marketing tries to make the sale and find new customer, while relationship marketing aims at creating a client relationship from the beginning to satisfy and retain existing customers. [16] It means that MLM operates by stipulating compensation schemes for products or services sold to customers (transactional marketing), as well as the recruitment of agents and creating long relation with them (relationship marketing). [9]

Term pyramid, which was already mentioned, is very often connected with MLM organisations. For example, Vander Nat and Keep [23] differs term pyramid from MLM and describes the approach how to distinguish MLM and pyramid. According to them pyramid organizations are those which do not demand sale of products or services. Such schemes are considered to be illegal because the main benefit for members does not come from the sale of particular product or service but benefit comes from recruiting members and taking entry fees from them.

MLM companies create an organizational structure in two parts – employees (administration, production) and distributors (creating business network). This article is concerned with distributors. They have the option to build up their own network according to rules set in advance based on the organizational structure.

Fig. 1: Binary and Unilevel organizational structures



Source: Adapted on the basis of [9]

The binary organizational structure is based on the rule that only two members can be incorporated into the first line. It means that in this plan each distributor is required to recruit two individuals only at the first level and placing them one on left and one on right. The binary plan is one of the standard compensation plans, limited in width and unlimited in depth. [19]

In the unilevel structure new members are always placed in the first line and this line is not limited as to its breadth. It is not required that every distributor shall put new members in his or her structure. Sometimes no obligatory number of incorporated members is defined. Therefore the number of members may differ with every individual (Fig. 1). [14] Thus unilevel plan is limited in depth and unlimited in width.

2 Methods

In order to accomplish the objectives of this paper specialised literature was researched and schools of managerial thinking were analysed. This put the theoretical basis on basic of secondary data. Other used methods were induction, deduction, and the analysis of causal relations as well as empirical investigation when the qualitative research in the form of interviews with managers in MLM organizations was used.

The objective of the qualitative research was to identify the process of work of managers in MLM company dealing with cosmetics and food supplements during spreading the distribution network. The hypothesis says that in this process all managerial functions are administered despite MLM is not a classic model of company and employee structure. Individual interviews with ten managers in five MLM organisations were carried out. All of these five MLM organizations operate in the Czech Republic in the area of cosmetics and food supplement production and distribution. The interviews lasted from September to November 2012.

For the credibility of the interviews it was necessary to vary consumer only from real manager. Consumers are members of the business network however they are not active

distributors. After the discussion with MLM representatives following criteria for interviews with particular manager were settled. Manager must be active in the company over two years and the month revenue of his own and his network must be higher than 200 000 Czech crowns. His first line of network must involve at least five active distributors. All interviewed managers fulfilled these conditions. Information acquiring was done by personal interviews concerning the process of managerial work relating to business network spreading and in which phase the managerial functions are used. The analysis was done on basis of secondary data as well as on primary data obtain by means of interviews. The primary research data were consequently organized and structures on the basis of really useful information. These data were summarized and verified. As a form of verification was chosen participant validation. [15] It means that findings were brought back to participants for studying and verifying the findings.

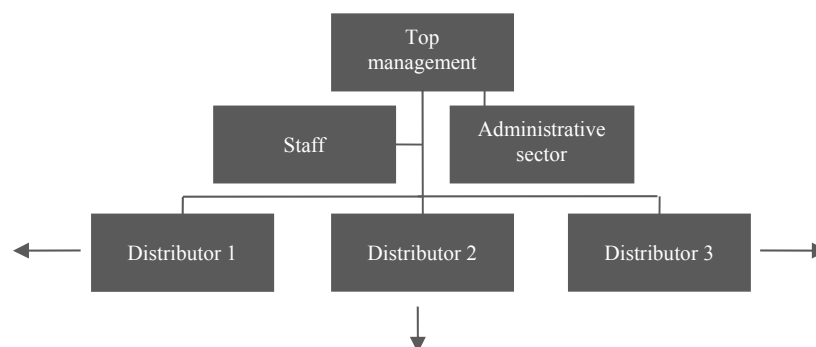
3 Problem solving

3.1 Managerial functions and activities in the analysed organization

As mentioned above MLM organization in the area of cosmetics and food supplement were examined. A particular example was shown on one organization only because qualitative research shown that the managerial process of work in MLM companies operating in this area does not vary significantly. On the example of this company is possible to present the function of organizing and leading people in MLM organization. These functions were closely examined in MLM organization dealing with producing and distributing cosmetics and food supplement. This organisation operates in the Czech Republic over 20 years and the number of active distributors on different levels refers to 72 000. In the Czech Republic its turnover achieved 650 million Czech crowns in 2012. [18] This organization operates in 32 countries in Europe, Asia and Australia. Total turnover of the company was 313 million US dollars in 2012. Sales method is person to person, compensation plan is multilevel marketing and organisational structure is unilevel. [7]

The organizational structure is divided into two parts – distributors and the administrative sector that are subordinate to the top management. The distributors were the part that we studied. Beside distributors it includes the staff composed of the ten most successful distributors. The staff workers are not entitled to make decisions, their function is purely advisory and the top management uses them as a tool for communicating information to distributors. Four top managers form top management.

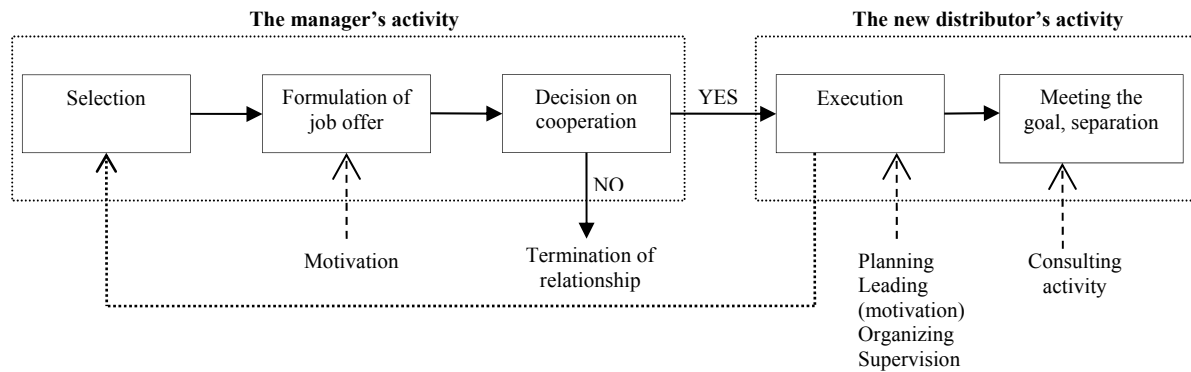
Fig. 2: Organizational structure of the analysed organization



Source: Author

The organization gives its distributors the opportunity to become managers on the basis of their executed work and achieved goals (sales and the expansion of the network). Activities of the manager include all basic managerial functions. Hypothesis set out in the primary research was confirmed. The following figure generally presents the activity of the distributor in the course of expanding the network and the overlapping of individual managerial functions in the entire process as was detected in the primary research.

Fig. 3: Application of managerial functions in the course of the activity of the manager in the MLM organization



Source: Author

When the manager intends to expand their distribution network they start their activity with the selection of workers. It is based on making a list of all contacts of the manager followed up by addressing these contacts. Another part of human resources management, i.e. the deployment of workers, is determined by the organizational structure itself (in this case unilevel) and the manager is obliged to conform to it while incorporating new members. The method used to recruit new workers in the MLM organization is represented by active direct addressing of a concrete potential applicant from the external environment of the organization. **The job offer** to the prospective distributor is always made via direct personal contact and this is also the first point when the manager motivates the potential applicant for the job offer. If the addressed person shows no interest the relationship is terminated. Otherwise the prospective applicant becomes new distributor and begins to execute his or her working activity (sales and the expansion of the network).

Another phase is the **execution** of cooperation. This phase includes the **planning** of the entire process and the follow-up achievement of the set goals that the new distributor has selected. Based on these goals, the manager will propose a strategy that should lead the new distributor towards the achievement of his or her goals. This strategy is composed of selling techniques and the techniques to expand the organization. As soon as the new distributor begins to execute the planned goals, he or she begins to make the same steps as their manager. During the execution phase the new distributor is led by their manager, their activities are directed all the time and the manager educates and motivates the distributor. This is the point where **the function of leading people** manifests itself. The function of **organizing** at the level of managers consists in incorporating the new distributor in their network based on the type of the structure and the assignment of tasks related to such position. **Supervision** is performed by the manager on the basis of turnovers, the number of new workers in the network and the quality of their leading, it means on the basis of set goals.

4 Discussion

According to Bělohlávek [1] and also according to Kislingerová [11] every type of the organizational structure has its own features and specifics that were compared with the features of the MLM organization and the activity of its distributors. On this basis it is possible to determine which organizational structure is, by its features, closest to MLM organization.

Tab. 1: Features of individual organizational structures in MLM organizations

Characteristic feature of MLM organization:	Characteristic feature of organizational structure:
Strategic decisions are concentrated in the hands of top management.	Functional
Individual units (in MLM the unit means the network of a single distributor) compete with one another.	Procedural
Managers (distributors) tend to become coaches – provide advice, instructions how to work, solve problems, impart information from the management and take care of the development of their workers.	Procedural
The authority of workers is strengthened – they take over the responsibility for the result and make own decisions on how to perform individual activities.	Procedural
Higher education is needed - management, trading skills, and specific education according to specialization.	Procedural
Clear responsibility for work results.	Divisional, Matrix-based
Clearly defined career advance.	Functional
Every unit, divisions is specialized for the same task.	Divisional
Changes of values - workers have to realize that they do not work for their superiors.	Procedural

Source: Author

4.1 Organizing and leading people

The function of organizing is represented in the MLM organization at the level of the organization itself as well as at the level of distributors. At the level of the organization itself it is clear that the structure corresponds to the line-staff structure. That is, there is the top management, the staff only with advisory authority are subordinate to the top management and communicate information to managers at the level below (distributors), who are incorporated into the organization on the basis of the unilevel organizational system. According to theory the objective of organizing is to define mutual relationships and functions, which corresponds to the function which organizing serves in the MLM organization. However, a specific feature of the MLM distribution structure is that it keeps changing. As cooperation with a new distributor is started (expansion) or when such cooperation is terminated (reduction) the structure is modified accordingly. The fact that the number of units in the organization is not determined is not an obstacle but rather the basis of the organization.

Having assessed the features of individual organizational structures we can state that the activities performed by the distributors and the features of the organizational structure are, in the largest part, typical for procedural structures. To sum up, the structure of the organisation is set as the line-staff structure; nonetheless the activities performed by the distributors are more typical for procedural structures. The basis for organizing in MLM firms can be considered to lie in scientific management (the staff defined by Fayol) as well as in modern management that allows for the diversification of responsibilities and the

creation of the structures of the procedural amoeba type, which, as we have found out, corresponds by its features mostly to the activities of the distributor in the organization.

Leading people in the MLM organization brings several specifics that are characteristic for MLM systems. One of them is the relationship between the superior and the subordinate. Neither the manager, nor any of the distributors are employees of the MLM organization. They always do business on the basis of the trade licence and therefore the traditional relationship between the superior and the subordinate is missing. Thus one of the specifics influencing the leading of distributors in the MLM organization is represented by the missing relationship between the superior and the subordinate resulting in absolute freedom in the decision making of the distributor. Therefore the style of leading people in the MLM organization has been established on the basis of these specifics and on the basis of interviews with the managers as democratic or even liberal. Theory has it that in practice the generally liberal method of leading people can be considered as unacceptable and the managers have confirmed this assumption during the interviews. They have stated that too liberal approach usually ends in the termination of cooperation, which is due to the very absence of any management and authority that could clearly organize, coordinate and supervise the activity of the distributor. On the other hand, as we mentioned, the authoritative style also loses its meaning in this case. Thus the democratic or even slightly liberal style makes it possible to leave the management of work largely up to the distributor while allowing for reciprocal active communication preserving and respecting the function of the manager.

It has been demonstrated that the leading of people and their motivation in the MLM organization is based on the theory Y when the management of work can, at least partially, be left with the worker himself or herself. On this basis we can state that the leading of people is derived from the behaviourist school. According to this school the executive worker should focus on the motivation of people and leave them space for their own activity. This can be pointed out as a typical element of leading people in the MLM organization. Workers with characteristic features according to the theory X cannot succeed in the MLM organization since self-management and/or self-motivation, self-fulfilment, independence and responsibility are ruled out by this theory.

4.2 Human resources management, planning and supervision

Even though the article focuses on the organizing and leading of people, it also includes other specifics concerning human resources management, planning and supervision. It is typical for human resources management in MLM that the identification of resources of possible applicants for the job always takes place on the external labour market since workers to take up the jobs cannot be found within internal resources. Another specific is that the selection is based on active searching of prospective distributors. Thus, in most cases, the job offer comes from the organization and addresses persons that may be potentially interested. The opposite situation when the interest is manifested first by the potential worker is very rare. Planning and supervision are based on the MBO technique when goals conforming to the SMART rule are set at the beginning of cooperation. Based on these goals, the manager supervises the work of the distributors and the distributors are also rewarded on the basis of achieving the set goals. These functions are grounded in empirical management. A specific feature of the supervision is the aforementioned absence of the superior-subordinate relationship. Controlling is executed on the basis of set goals. If the manager identifies any deviation from the goal he determines the causes of such situation and possible remedial measures. However, the remedy cannot be enforced and it is

always up to the distributor whether he or she will execute it or not. It means that distributor has to be able to self-control.

Conclusion

The objective of this article was to determine historical origins of the managerial functions of organizing and leading people (namely, the organizational structures and the style of management) in the schools of managerial thinking, to analyse, on this basis, the basic managerial functions in MLM organizations in the work of their distributors and to determine which historical trend influences the organizing and leading of people in MLM organizations. The determination of the development of organizational structures and the styles of managing people according to historical schools of managerial thinking and the follow-up analysis of these functions in a concrete MLM organization have shown that the organizing is based on the school of scientific management as well as on modern management. The leading of people has its origin in the behaviourist school since it is approached in accordance with the theory Y that allows for democratic to liberal management, which has also been identified in the analysed MLM organization. The possible contribution of this article is the contribution to the theoretical basis of the management in MLM organizations. From the practical viewpoint the article may be of value by presenting reasons why certain styles of management lead to the failure of distributors in the MLM organization.

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Contact address

Mgr. Zita Košnarová

University of Pardubice, Faculty of Economics and Administration, Institute of Business Economics and Management

Studentská 95, 532 10 Pardubice, the Czech Republic
E-mail: zita.kosnarova@student.upce.cz
Phone number: 466 036 664

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