

NETWORK MARKETING: EMBEDDED EXCHANGE?

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Network Marketing: Embedded Exchange?

ABSTRACT

An embedded market is one in which social relationships influence commercial exchange, and vice versa. Theory suggests that embedded markets are the norm rather than the exception. However, Frenzen and Davis (1990) studied home-based direct-selling activity and were able to support only a weak form of embeddedness. By examining a similar type of selling activity, this study extends Frenzen and Davis (1990) to test further the embeddedness of market exchange. In our analysis, we examine a different kind of resource commitment over a longer time period, and we include the potential influence of broader network relations. Our results are generally supportive of previous findings when focusing only on respondents' relationships with their sponsors. However, inclusion of additional factors supports the existence of a strong form of embeddedness.

NETWORK MARKETING: EMBEDDED EXCHANGE?

Over the past two decades, a number of researchers have hypothesized and supported the proposition that economic activity is “embedded” in social structures and is therefore influenced by personal relationships (Granovetter 1985). For example, personal ties have been shown to be influential channels for both negative (Richins 1983) and positive (Brown and Reingen 1987; Reingen and Kernan 1986) word-of-mouth information about market offerings. The strength or weakness of personal ties has also been shown to affect the likelihood that valuable economic information will be shared between consumers (Frenzen and Nakamoto 1993). Furthermore, consumers sharing close personal ties have been shown to share brand choice in some product categories (Reingen, Foster, Brown, and Seidman 1984; Wind 1976). The finding that economic activity is embedded in social structures is an essential cornerstone for research on the sociology and social psychology of consumer behavior.

One explanation for why friends may share product information or mirror one another’s purchase behavior comes from social exchange theory. Although personal relationships are often considered to be less mercenary and materialistic than commercial relationships, social exchange theory emphasizes that individuals in both types of relationships are equally concerned about the equitable exchange of resources, both tangible and intangible. In other words, the benefits an individual obtains in social relationships are contingent upon the benefits he or she provides in return (Emerson 1990, p. 32). Social exchange theory also argues that individuals use implicit heuristics to keep track of what they get from a relationship in relation to what they give (Thibault and Kelley 1959).

The mechanism underlying social exchange in embedded markets has been called “social capital” (Frenzen and Davis 1990). Social capital is the currency of social relationships. It is what individuals “earn” when they commit resources to a relationship and what they “spend” when they draw benefits from a relationship. For example, when John tells Mary about an excellent new piano teacher in the area, he earns social capital, which can be thought of as social dollars given by Mary for John’s information. However, unlike monetary dollars, social dollars cannot be spent anywhere. They are “inalienable,” which in our example means that they can be spent only by John with Mary (Frenzen and Davis 1990). The concept of social capital is important for understanding embedded markets because it suggests a mechanism through which commercial and social exchange can intermingle: John may build up social capital in his relationship with Mary not only by passing on useful service information to her, offering her encouragement, or flattering her by mimicking her product choices; but also via more commercial activities including, say, patronizing the clothing store that she manages.

While this proposition seems theoretically defensible, can it be shown empirically? In other words, if John were to visit Mary’s store, would the closeness of their relationship significantly affect his purchase behavior? Most consumer behavior studies do not address this specific question. They tend not to examine situations in which friends are buying products from friends – situations in which embeddedness should be particularly strong. One notable exception is Frenzen and Davis (1990), who examine social relationships between buyers and sellers in a direct-selling marketplace. Building from Mauss (1967) and Simmel (1971), they argue that the closer a buyer is to a seller, the more social capital he or she can earn from the same

transaction. Frenzen and Davis (1990) further hypothesize that economic action can be either weakly or strongly embedded in social relations. In strongly embedded markets, the closeness of buyer and seller is expected to increase both the likelihood and the volume of purchase. That is, the closer John is to Mary, the more he will spend at Mary's store. In weakly embedded markets, the closeness of buyer and seller is expected to increase only the likelihood of purchase. If John is close to Mary, he may buy something, but not necessarily something expensive.

Frenzen and Davis (1990) supported the existence of a weakly embedded market, but not a strongly embedded one. Buyers who were close to sellers were indeed more likely to make a purchase, but not a larger purchase. This finding suggests that, at least in some markets, there is a limit to the extent to which an individual (or a business) might leverage existing social relationships for greater sales. It also suggests some potential limits to the amount of practical insight that a social-exchange perspective may offer in relation to economic exchange.

However, as with any single study, there are potential alternative perspectives for the Frenzen and Davis (1990) results. In the next section, we describe their study in more detail and outline some alternative perspectives that, if validated, would support a strong form of embeddedness over a weak one. Then we describe our empirical test of these alternative explanations.

EXTENDING THE FRENZEN AND DAVIS STUDY

Frenzen and Davis (1990) examined a type of direct selling in which individuals (called "hostesses")¹ invite a group of friends and acquaintances (called "invitees") to home-based sales presentations to interest them in buying products. Frenzen and

Davis (1990) argue that invitees at these sales events are enticed by two types of utility, which combine to create a total utility (U_T). The first type, called acquisition utility (U_A), is derived from the product purchased and is therefore independent of the individuals participating in the transaction. The existence of U_A means that the utility gained by invitees can come at least in part from the purchase of goods that they desire. The second, called exchange utility (U_E), is the utility gained from social capital. It is derived from contributions made to the social relationship and is inseparable from the social relationship in which it is exchanged. Thus $U_T = U_A + U_E$. It is the simultaneous generation of U_A and U_E that makes a market embedded.

As mentioned above, after removing the effects for U_A , Frenzen and Davis (1990) found that U_E was associated with market entry only (i.e., purchase or no purchase), but not amount purchased. Thus, there was support only for what Frenzen and Davis (1990) call a weakly embedded market. This is an important finding because it suggests that social relationships can be influential in encouraging purchase occasions. However, the finding that U_E was not associated with amount purchased seems to mitigate the promise of the embeddedness concept, and therefore questions the extent to which social exchange is generally intermingled with economic exchange.

However, as we have suggested, there are alternative explanations for the Frenzen and Davis (1990) result. First, it is important to emphasize that money is not the only tangible discretionary resource that an invitee can contribute in order to earn U_E ; time is another (Leclerc, Schmitt and Dubé 1995). In the marketplace of social exchange, simply taking the time to come to the party can “count” as a tangible relational resource that can generate U_E . For example, because hostesses are rewarded not only for sales at their own event, but also for invitees who schedule their own

home selling events (Frenzen and Davis 1990, p. 4), invitees may generate U_E by hosting an event of their own – an agreement that entails committing time to recruit friends, prepare one’s home, and handle administrative duties both during and after the event (Frenzen and Davis 1990, p. 4). Given the uncertainties associated with hosting one’s own sales event (e.g., invitees may not attend as agreed, sales may not be as high as desired), a time commitment may be viewed as an even more valuable resource than a commitment of money (Leclerc, Schmitt, and Dubé 1995). Accordingly, in our study, we measure time commitment as the key discretionary resource given by respondents. Although Frenzen and Davis (1990) found that those close to the hostess were not more likely to commit larger amounts of money, they might be more likely to commit larger amounts of time.

The fact that invitees might generate U_E after the party highlights the fact that social exchange can occur over longer periods of time than that required to consummate a single commercial exchange. The Frenzen and Davis (1990) study examined behavior only at single selling events, but buyer-seller relationships are by definition phenomena that occur over time (Dwyer, Schurr and Oh 1987, p. 12) so the strength of these relationships may influence commitment of resources beyond the initial event. Thus as a second extension of Frenzen and Davis (1990), it would be useful to examine the cumulative exchange over a longer time period to see if the results are different when tracked over a longer duration. Although the resources exchanged at a single event may not support a strong form of embeddedness, the cumulative resources exchanged over a longer time period might.

Third, Frenzen and Davis (1990) modelled the social system of the selling event in terms of separate dyadic relationships between each invitee and the hostess.

However, the social arena of a home selling event may be perceived as a network of relationships among all participants. In other words, embedded exchange is supra-dyadic; it involves not just two individuals but a complex system of exchange among many (Arabie and Wind 1994; Bagozzi 1974, p. 78; 1975, pp. 33-34). To illustrate, let us expand our earlier example in which John visits Mary's store (see Figure One). The likelihood of John's buying something is not dependent only on how close he is to Mary. His buying may also be influenced by other dyadic relationships in which John is involved. For example, if Mary's store sells the brand of clothing that Paul tends to wear, then the likelihood of John's purchase may also be influenced by how close he is to Paul (Reingen, Foster, Brown, and Seidman 1984; Wind 1976). Being close to both individuals, John's purchase of clothes can generate exchange utility with both Mary (U_{EM}) and Paul (U_{EP}). Thus, $U_T = U_A + U_{EM} + U_{EP}$. In the Frenzen and Davis (1990) study, nothing is known about whether invitees at the home-selling event felt strong or weak connections with other invitees at the event. It therefore remains an open question whether invitee purchase behavior was affected by relationships beyond the relationship with the hostess. Strong embeddedness could be supported if this wider network of ties were taken into account.

---Figure One Here---

Lastly, the amount of experience that two individuals have with a particular type of exchange may have a potentially important influence on the types of utility gained from the exchange. When two individuals enter into a new type of exchange behavior – regardless of how close they may be – a learning process may be required

before it is clear to both parties how U_E might be generated. For example, because home-based sales presentations are a relatively unique marketplace, someone attending such an event for the first time may be unfamiliar with the expectations and norms of exchange (Grayson 1998). However, after attending several events, the individual will be more accustomed to the norms of the marketplace. Furthermore, he or she will have time to customize his or her obligations in a way that facilitates greater enjoyment of non-economic benefits (Dwyer, Schurr and Oh 1987, p.13, see also Macneil 1980). Thus, while Frenzen and Davis (1990) hypothesized that buyers who are closer to sellers can generate greater U_E from the same transaction, we further hypothesize that length of experience with a particular type of exchange will moderate this relationship. Closely tied individuals with more experience with the focal purchase activity will be able to generate greater U_E from the same transaction than closely tied individuals with less experience. As a result, markets may become more strongly embedded as individuals in the market gain more experience with the marketplace.

In our study, we test these alternative explanations and thus extend Frenzen and Davis (1990) in five ways. First, we examine the commitment of time, a non-monetary resource that may generate U_E in a relationship. Second, rather than looking at the exchange during a single selling event, we study cumulative exchange over a longer period of time. Third, we capture the extent of social relationships beyond the focal buyer-seller dyad and therefore measure the influence that the broader social network may have on the social exchange. Fourth, we include in our analysis the potential influence of how long an individual has been participating in the marketplace, which may moderate the nature of resources that are exchanged. Lastly, we examine these hypotheses in a setting that is similar but not identical to that in which Frenzen

and Davis (1990) implemented their study. This allows us to both submit their results to a test of replication and extend their findings as described above. Our setting is “network marketing” organizations, which we describe in the following section.

SINGLE-LEVEL VERSUS MULTI-LEVEL DIRECT SELLING

Direct selling is an approach to distribution that uses salespeople to sell and supply consumer goods to private individuals outside of conventional retail channels (Berry 1997, p. xxi). Frenzen and Davis (1990) examined one approach to direct selling but there are many other kinds. One way to distinguish between kinds of direct-selling organizations is by how much the organization encourages its salespeople to recruit other individuals to sell products. Some direct-selling companies do not encourage this at all, and therefore operate much in the same way that conventional sales companies do. Other direct-selling companies – such as those examined by Frenzen and Davis (1990) – offer gentle encouragement. In these companies, hostesses at a sales event are rewarded with product incentives if their invitees become sellers hosting parties of their own. Still other direct-selling companies are more extensive and specific in rewarding those who recruit other salespeople. These companies allow individuals to earn not just product incentives, but actual monetary commissions on the products sold by their recruits – and on the products sold by their recruits’ recruits, and so on for many levels.

Companies that offer extensive rewards for recruiting are often called “multi-level marketing” or “network marketing” organizations because their salespeople benefit from the network of productive sales levels they build. In contrast, companies that offer little or gentle encouragement are called “single-level” sales organizations.

Although individuals in some single-level organizations may be rewarded for recruiting others, they are not rewarded for the activities of their recruits' recruits, their recruits' recruits' recruits, etc. Nonetheless, the network-marketing salesforces that we research in our study and the single-level salesforces that Frenzen and Davis examined have a number of similarities. Both are direct salesforces (Berry 1997); both tend to have group sales events where salespeople and customers come together in a room to exchange tangible and intangible resources; and both tend to leverage existing social relationships to generate sales leads and opportunities. Those participating in the organizations examined in both our study and Frenzen's and Davis's (1990) were implicitly encouraged to be both buyers and sellers during the course of their involvement. In sum, both engender embedded social exchange systems.

Despite these similarities, the commission structure for network marketing companies means that their salespeople place much greater and persistent emphasis on encouraging prospects to become salespeople themselves (Berry 1997, p. 53). Network marketers sell not only the benefits of a product line but more importantly the benefits of building a sales business around the product line. Some customers are content to simply purchase the product and are not interested in becoming salespeople themselves, but those who do decide to become salespeople are "buying" a business, not a consumer good. In many ways, this is a difference of degree, not kind. As mentioned above, many of those studied by Frenzen and Davis (1990) were implicitly expected to sell the benefits of having a party at their own home (p. 4).

However, the difference has some important methodological implications for our research. First, as compared with the marketplaces examined by Frenzen and Davis (1990), the difference increases the range of potential time commitment available

to respondents. Prospects for network marketing companies are encouraged to turn network marketing into a part-time, or even full-time, job. In contrast, although invitees for single-level sales organizations may attend a series of parties, there is not the same level of encouragement for prolonged and consistent time commitment. Because this range restriction for the single-level organizations might reduce the variance of time commitment among buyers, studying network marketing increases our ability to reliably test the relationship between exchange utility and time commitment. The relatively greater focus that network marketers place on a business orientation (as compared with invitees at single-level events) is also methodologically beneficial because participants are more conscious about the time they commit to their business. Significant emphasis in network marketing sales training is placed on time management and efficient use of time (Bartlett 1994, pp. 96-108; Bremmer 1996, 206-215). This greater awareness should make network marketers' estimates of time commitment more accurate.

There are some terminological differences between network marketing and single-level direct selling companies. We illustrate the network marketing terminology in Figure Two. Network marketing salespeople are often called "distributors," which is how we refer to the respondents to our study (instead of "invitees"). Those who sign them up to be salespeople are often called "sponsors," equivalent to Frenzen's and Davis's (1990) "hostesses." As mentioned, we also examine the focal distributor's relationships with other individuals. First, there are those in the distributor's "indirect upline" – individuals who are colleagues of the sponsor (and are therefore usually more senior than the distributor), but who do not directly supervise the distributor. Next, there are "crossline distributors" – colleagues who are generally at the same level of

experience as the distributor. Lastly, there are members of the distributor's "downline" – those whom the distributor has recruited as salespeople into the exchange network.

Our assumption is that, just as John's purchase of clothing can generate U_E in different ways in different relationships, a distributor's commitment of time can do the same throughout the relationships depicted in Figure Two. We present our hypotheses about this utility generation in the next section.

---Figure Two Here---

HYPOTHESES

First, we re-test the Frenzen and Davis (1990) finding by examining the influence that a relationship between sponsor and distributor may have on the distributor resource allocation (remembering that the "product" for network marketing distributors is a sales business, and the resource committed by "buyers" is time). Thus, controlling for the economic benefits of the sales business (U_A), we hypothesize the following:

H1: Distributors with stronger ties to their sponsors commit greater time to their business than those with weaker ties.

Next, still controlling for U_A , we test the further hypotheses that the relationship between a distributor and other members of his or her network may also affect this allocation:

H2: Distributors with stronger ties to their pool of recruits (their downline) commit greater time to their business than those with weaker ties.

H3: Distributors with stronger ties to members of their crossline commit greater time to their business than those with weaker ties.

H4: Distributors with stronger ties to members of their indirect upline commit greater time to their business than those with weaker ties.

We also test the hypothesis that length of time in the business moderates the relationship between strength of tie and allocation of time:

H5: The longer a distributor has been in the business, the stronger the associations described in H1 - H4.

Frenzen and Davis (1990) also found that, when controlling for exchange utility (U_E), acquisition utility was a good predictor of resource commitment. This suggests that economic benefits (and not just social ones) motivated those examined in the Frenzen and Davis (1990) study. We therefore predict similar results for our study:

H6: The greater the U_A perceived by the distributor – as measured by (a) satisfaction with company support, and (b) satisfaction with the distributor's own network marketing business – the greater the time a distributor spends on his/her business.

Lastly, it is both theoretically and managerially useful to test the impact that a commitment of hours may have on business outcomes. Although this is not a theory test, it allows us to examine the potential link between consumer behavior and company performance:

H7: Time spent on the business will result in greater (a) business profits, (b) personal sales, and (c) personal recruits.

EMPIRICAL RESEARCH

Data Collection

To generate a sample of network marketing participants, four network marketing organizations that were members of the Direct Selling Association² provided mailing lists of distributors who had been active for 1-3, 4-6, and 6+ years. One of the four participating companies marketed jewellery; a second marketed vitamins and dietary supplements; a third marketed cosmetics; and a fourth marketed a wide range

of consumer goods including household products. Sampling from the distributor populations of four different companies helps to enhance the external validity of any potential findings.

Surveys were mailed to 2,850 distributors, and 24% were returned, resulting in a sample of 685 respondents. This sample's descriptive statistics are reported in Table One. The female bias in the sample is appropriate – a 1995 study commissioned by the Direct Selling Association reported that 76% of network-marketing distributors were female, and in 1997, it was 79%. For each company's responses, we compared the demographics of the first 20% of surveys received with the demographics of the last 20% of surveys received, and found no significant differences.

--Table One Here--

Measures

We adapted the Frenzen and Davis (1990) measures to our network marketing context, and developed measures to examine our additional constructs of interest. Our constructs and their relation to Frenzen's and Davis's (1990) are summarized in Table Two, and specific measures used in the analysis are reported in Table Three. To allow direct comparison between the two studies, we follow Frenzen and Davis's description of measures below.

--Tables Two and Three Here--

Measures of U_E between distributors and sponsors. To measure the U_E between distributors and sponsors, we measured the tie strength between sponsor and distributor as well as the level of obligation felt by the distributor toward his or her

sponsor. For tie strength, we measured four indicators: closeness, intimacy, support, and association. Closeness was measured directly by asking each respondent to rate the closeness his or her relationship with the sponsor on a 7-point scale. Support was measured by the amount of information the sponsor provides to the distributor about the business and the company. The remaining indicator variables were based on respondents' reported likelihood of engaging in two activities with the sponsor: Intimacy was measured by the respondent's reported likelihood of sharing a difficult personal problem with the sponsor, and association was measured by the respondent's professed likelihood of spending a free afternoon with the sponsor.

To measure the degree to which a distributor felt obligated to his or her sponsor, we used data collected from two items. First, we asked respondents to indicate whether the sponsor owed the respondent a favor or vice versa. Second, we asked respondents to describe how much of an obligation they felt toward their sponsor to have a successful business.

Measures of U_E between distributors and their recruits. Measuring the individual U_E between respondents and each of their recruits is more difficult than measuring that between respondents and sponsors because respondents worked with an average of 39 recruits (see, e.g., McCallister and Fischer 1983 for a discussion of using mass surveys to assess personal networks). To avoid the difficulty and monotony associated with answering the same questions about 39 or more individuals, we asked respondents to indicate the number of their recruits who met five criteria, which each reflect the closeness of the focal distributor to his or her downline. First, respondents were asked how many of their recruits they would ask for help with a business problem. Second, they were asked how many of their recruits were truly

friends rather than just business associates. Lastly, they were asked about their communication frequency, i.e., how many of their recruits they spoke with (a) 1 or 2 times a month, (b) 3 to 5 times a month, and (c) more than 5 times a month. Respondents were also asked their total number of recruits so that responses to all of the above questions could be standardized across all respondents, and therefore not biased by the total number of recruits mentioned by any one individual.

Measures of U_E between distributors and their crossline / indirect upline.

Measures of the U_E between respondents and their crossline / indirect upline are similar to those for downline relationships. Respondents were asked how many individuals in their crossline / indirect upline they considered to be friends rather than just business associates. They were also asked how many of their recruits they spoke with (a) 1 or 2 times a month, (b) 3 to 5 times a month, and (c) more than 5 times a month.

Measures of U_A . Respondents were asked to rate the benefits of their business by reporting their satisfaction with the the level of support provided by the company and satisfaction with the outcomes of their sales business. For the level of service provided by the company, respondents were asked to rate their level of agreement with statements about a number of company's attributes (see Table Three). For overall satisfaction with their business, respondents rated how satisfied they were with their business and how likely it was that they would reach their long-term business goals. Respondents also rated the influence that being a distributor has had on their lives.

Measures of U_T . The dependent variable (U_T) in this investigation is reflected by a respondent's time commitment to two activities. The first activity is making sales presentations – that is, selling the network marketing products and the business to new distributors and consumers. The second is managing his or her network of recruits.

We asked respondents to report separately the time commitment made to each of these activities.

Extended Measures of U_T. Lastly, because we anticipated that a greater number of hours spent on the business would result in better business outcomes, we also asked respondents to report the average number of recruits they personally sponsor in an average month, the value of products they sold in an average month, and the amount of profit earned in an average month.

RESULTS

Construct Validity

Before measuring the associations between our theoretical constructs, it was important to establish convergent and discriminant validity for our measures. We assessed construct validity by submitting our data to confirmatory factor analysis (using LISREL VIII). Our initial model reflected a marginally acceptable fit and modification indices encouraged us to remove one measure of company support (“helps with administration”) and measures of communication frequency with indirect upline and crossline. They also indicated likely enhanced fit by combining measures for (a) strength of sponsor tie and obligation to sponsor and (b) crossline friendships and indirect-upline friendships. We did so, and this latter combination necessitated that we combine H3 and H4 into H3/4. The resulting model fit statistics were strong: CFI 0.94, GFI 0.93; AGFI 0.91; RMSEA 0.049; Chi Square (df 229) 607 (p = 0.0). Cronbach Alphas for the scales are reported in Table Three. The Alphas for one construct is lower than the conventional 0.70 but does not fall to unacceptable levels,

especially at this initial stage of measurement development (Bollen and Lennox 1991; Slater and Narver 1994).

Testing the Model

To test our hypotheses, we used OLS regression to fit models to five dependent variables: hours spent on sales presentations, hours spent on network management, business profits, personal sales, and personal recruits. To test H1 - H6, we regressed hours spent on sales presentations and hours spent on network management onto five independent variables: exchange utility with sponsor, exchange utility with recruits, exchange utility with crossline / indirect upline, acquisition utility (business), acquisition utility (company), plus three interaction terms with length of time the respondent had been a distributor. To test H7, we regressed business profits, personal sales, and personal recruits onto hours spent on sales presentations. Table Four reports the standardized estimates for each model.

--Table Four Here--

Predictors of Time Commitment: As shown in the Table, the data falsify H1. When controlling for other predictors, the first predictor listed in the Table (exchange utility with sponsor) was not associated with greater time commitment to sales presentations or network management. However, although the next predictor (exchange utility with recruits) was not significantly associated with time committed to network management, it was significantly associated with hours spent on sales presentations (H2). Furthermore, exchange utility with crossline/upline was significantly associated with time committed to network management but not to sales presentations (H3/4).

The hypothesized effect of the acquisition utility of the company was falsified for hours spent on sales presentations, and a relationship opposite to that predicted was supported for hours spent on network management (H6a): greater acquisition utility in terms of company support meant fewer hours spent on network management. Furthermore, the acquisition utility of the business was strongly associated with more hours committed to both selling and network management (H6b). However, H5, which predicted a moderating influence of time in the business was, for the most part, not supported. There was a marginally significant interaction between time in the business and strength of relationship with sponsor as predictors of hours spent on network management (the nature of this interaction is illustrated in Figure Three). Lastly, H7 (a) - (c) was supported in five of the six tests (with the exception that time spent on network management was not significantly associated with greater personal sales).

---Figure Three Here---

DISCUSSION

Overall, our data replicate the Frenzen and Davis (1990) results and, via the additional tests performed, place these results within a context that allows a richer understanding of their findings. First, as in Frenzen and Davis (1990), our data did not strongly support a relationship between greater sponsor-distributor U_E and a greater commitment of discretionary resources on the part of the distributor. Even when cumulatively considering time (instead of money) commitments, strength of relationship between buyer and seller is not a reliable predictor of amount of commitment.

However, one marginally significant result was the interaction between time in the business and strength of relationship with sponsor. This finding tentatively suggests that the closeness of a relationship interacts with length of time in the relationship to encourage greater exchange. In longer relationships, those closer to their sponsor were more willing to put time into managing their business. This result provides some evidence that strongly embedded markets do exist between sponsors and their recruits when taking into account the additional factors measured in our study.

Additional results further support predictions for a strongly embedded market. Exchange utility with recruits was strongly associated with the amount of time a distributor was willing to spend on his or her own sales presentations. It appears that the social capital engendered by a distributor's friendships with downline members establishes an obligation for the distributor to maintain and grow his or her own business. Just as (in our earlier example) John's purchase of Paul's brand of clothing has a symbolic value in their social exchange, a distributor's successful business has a symbolic value with his or her downline friends. A similarly significant association was found between exchange utility with crossline / indirect upline and the amount of time a distributor was willing to spend on her or her network management. Here again, the social capital engendered by friendships with more senior and same-level distributors appears to establish an obligation to work harder at network management.

Another important result was the strong association between a distributor's satisfaction with his or her business and hours spent on both selling and management. This parallels the Frenzen and Davis (1990) finding that acquisition utility is a good predictor of resource allocation. It also highlights the fact that the exchange situations

we examined were indeed markets in which participants generate both U_A and U_E . In other words, participants in these markets are simultaneously motivated by both social and economic considerations, and are therefore by definition participating in an embedded market.

The negative association between company support and hours spent on network management can be explained by the fact that our measures for company support included measures for how well the company communicates information and solves distributor problems. It makes intuitive sense that the better a company is at supporting its distributors, the less network management work its distributors have to do. Conversely, a distributor who feels that his or her company does not provide useful support will need to spend more time getting the information and solving the problems required for good network management.

Lastly, hours spent on both selling and network management were strongly associated with higher profits and more personal recruits. Because network management does not involve any selling *per se*, it is not unusual that only selling was associated with greater personal sales. The link between hours and these business outcomes helps to establish an indirect link between social exchange and company performance.

CONCLUSIONS AND FUTURE DIRECTIONS

“How behavior and institutions are affected by social relations is one of the classic questions of social theory” (Granovetter 1985, p. 91).

We began this paper by asking if the closeness of a relationship between a buyer and a seller is likely to affect the buyer’s commitment of resources to the seller. The Frenzen and Davis (1990) study suggested that, when taking only the buyer and

seller into account and when looking at the commitment of resources over a relatively short time period, the relationship will not affect the amount of resource commitment. It is clear that, had we also kept our focus only on the distributor-sponsor dyad, we also would have falsified the hypothesis supporting strong embeddedness. This replication provides convincing evidence that the benefits of strongly embedded exchange are not likely to be realized by any individual buyer-seller dyad. Results from the two studies suggest that a seller who focuses only on embedding exchange within single buyer-seller social relationships will reap some benefits, but relatively weak ones.

However, by expanding our research perspective to include both a larger and more complex exchange network – and by capturing some of the cumulative exchange dynamics over a longer period of time – we were able to extend and refine their previous results because evidence of strong embeddedness did emerge. For example, some support was found for the proposition that strong embeddedness does exist for distributor-sponsor relationships, but only after the relationship has had some time to develop exchange norms. Significant evidence was also found in favor of strong embeddedness between our respondent distributors and what might otherwise appear to be more peripheral corners of the social network. Friendships with members of a distributor’s indirect upline, crossline, and downline seemed to establish exchange obligations that encouraged distributors to spend more time on various business activities.

This finding has important theoretical and methodological implications. First, Granovetter (1985), Dwyer, Schurr and Oh (1987), and many others have claimed that purely “transactional” exchange (free from the influence of personal relationships) is

the exception – if it exists at all. With only the Frenzen and Davis (1990) results in hand, one might be led to believe the opposite: that even very social markets like home-party selling are at best mildly influenced by social relations. Our study helps to put these claims and results in perspective. Our results emphasize what studies like Frenzen and Nakamoto (1993) and Reingen and Kernan (1986) have also stressed: that a full understanding of social influence on market exchange requires researchers to tackle the always difficult problem of measuring supra-dyadic relations.

These conclusions must be tempered with consideration for our study's limitations, which also provide a foundation for future research suggestions. First, like Frenzen and Davis (1990), we performed cross-sectional field research, and therefore neither experimentally manipulated independent variables nor exercised laboratory-level control over the potential presence of additional variables. While the implementation of our study with 685 actual distributors participating in real social networks has its advantages, it also means that causal attributions based on our data must be made tentatively. Furthermore, while our cross-sectional data allowed us to compare distributors with different lengths of experience in the marketplace, longitudinal research on individual distributors would provide a richer perspective on how resource commitment changes over time. Longitudinal research would also allow further study of the likelihood of market entry, which was examined by Frenzen and Davis (1990) but not in the current study.

Our data collection mechanism was a survey, which allowed us to examine individual perceptions of network relations across four different companies using a respondent group reflecting a fairly wide range of experience and earnings. However, the mass-survey methodology of our study meant that our measures of relationships

beyond the sponsor-distributor dyad were at an aggregate (rather than an individual) level. For example, we measured the number of friends in a distributor's downline network, not the individual friendships within that network. This meant that we were unable to capture the nuances of individual relationships beyond the sponsor-distributor relationship. Examining a more strictly defined social network using more detailed network analysis would allow analysis of such network details, and would help to expand our understanding of market embeddedness.

Accepting that future work is needed for a better understanding of the phenomena we examined, our study does offer hard evidence for the existence of strong embeddedness. This evidence provides encouragement to researchers and managers interested in how – or if – social networks can be leveraged for commercial success. It also offers a warning: Although looking only at dyads will provide us with considerable insight about consumer behavior, it may mislead us about how larger social networks influence that behavior.

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**TABLE ONE:
DESCRIPTIVE STATISTICS OF RESPONDENTS**

Age of Respondents	average: 42.2 years upper quartile: above 47 years lower quartile: below 35 years
Gender	24.8% male 75.2% female
Earnings*	22% earning less than \$220 per year 25% earning \$220 - \$1119 per year 24% earning \$1120 - \$2249 per year 29% earning greater than \$2250
Years as a network marketing distributor	27% less than 18 months 23% 18 months - 3 years 26% 3 years - 4.5 years 24% more than 4.5 years

**TABLE TWO:
COMPARING CONSTRUCTS BETWEEN THE TWO STUDIES**

<i>Construct</i>	<i>Frenzen and Davis</i>	<i>Current Study</i>
Total Utility (U_T)	Purchase Incidence Purchase Amount	Hours Spent on Sales Presentations Hours Spent on Network Management
Acquisition Utility (U_A)	Product Use Frequency Brand Preference	Satisfaction with the Business Satisfaction with the Company
Exchange Utility with Sponsor (U_{ES})	Tie Strength with Host Invitee Obligation to Host	Tie Strength with Sponsor * Invitee Obligation to Sponsor*
Exchange Utility with Downline (U_{ED})	Not measured	Tie Strengths within Downline Group
Exchange Utility with Upper Network (U_{EU})	Not measured	Tie Strengths within Upper Network**
Business Outcomes (U_T)	Not measured	Profits Sales Recruitment Figures

* Confirmatory factor analysis showed high intercorrelations among these measures so they were combined into one "Relationship with Sponsor" measure

** Confirmatory factor analysis showed high intercorrelations among measures of upline and crossline friendships so these were combined into one "Upper Network Relationships" measure

TABLE THREE: CURRENT STUDY MEASURES AND ALPHAS

<i>Construct</i>	<i>Measures</i>	<i>Alpha</i>
Acquisition Utility (Company Support)	Company's ability to communicate information Company's ability to listen to distributors Company's fairness Company's viable long-term business strategy Company's response time to problems Company's quality of problem response	0.82
Exchange Utility with Sponsor	Closeness to sponsor Information provided about the business Likelihood of sharing a personal problem Likelihood of spending an afternoon The balance of favors with the sponsor Obligation to the sponsor to do well with the business	0.81
Exchange Utility with Upper Network	Number of indirect uplines distributor considers to be truly friends Number of crosslines distributor considers to be truly friends.	0.80
Acquisition Utility (Business)	Overall satisfaction with the business Distributor's likelihood of reaching business goals Influence that business has had on distributor's life	0.73
Exchange Utility with Downline	Number of downlines distributor would ask for help with a business problem Number of downlines distributor considers to be truly friends Number of downlines distributor speaks with 1-2, 3-5 and more than 5 times a month	0.62

TABLE FOUR
STUDY RESULTS: STANDARDIZED ESTIMATES

	Hours Spent on Sales Presentations	Hours Spent on Network Management	Business Profits	Personal Sales	Personal Recruits
Exchange Utility with Sponsor (U_E)	0.000	-0.021			
Exchange Utility with Recruits (U_E)	0.132*	-0.039			
Exchange Utility with Crossline / Indirect Upline (U_E)	0.037	0.129*			
Acquisition Utility – Company (U_A)	-0.061	-0.143***			
Acquisition Utility – Business (U_A)	0.288***	0.322***			
Time in the Business x Exchange Utility with Sponsor	0.012	0.073^			
Time in the Business x Exchange Utility with Recruits	-0.104	-0.012			
Time in the Business x Exchange Utility with Crossline / Indirect Upline	0.022	-0.022			
Hours Spent on Sales Presentations			0.252***	0.320***	0.126***
Hours Spent on Network Management			0.364***	0.033	0.523***
R^2	0.08	0.10	0.28	0.11	0.35

^ p = 0.06 * = p < 0.05 ** = p < 0.01 *** = p < 0.001

Figure One
An Illustration of Supra-Dyadic
Embedded Exchange

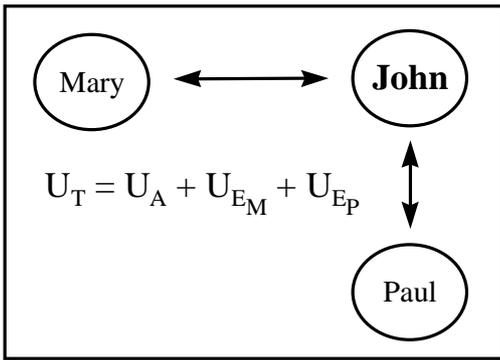


Figure Two
Embedded Exchange in Network Marketing
(from the perspective of a focal distributor)

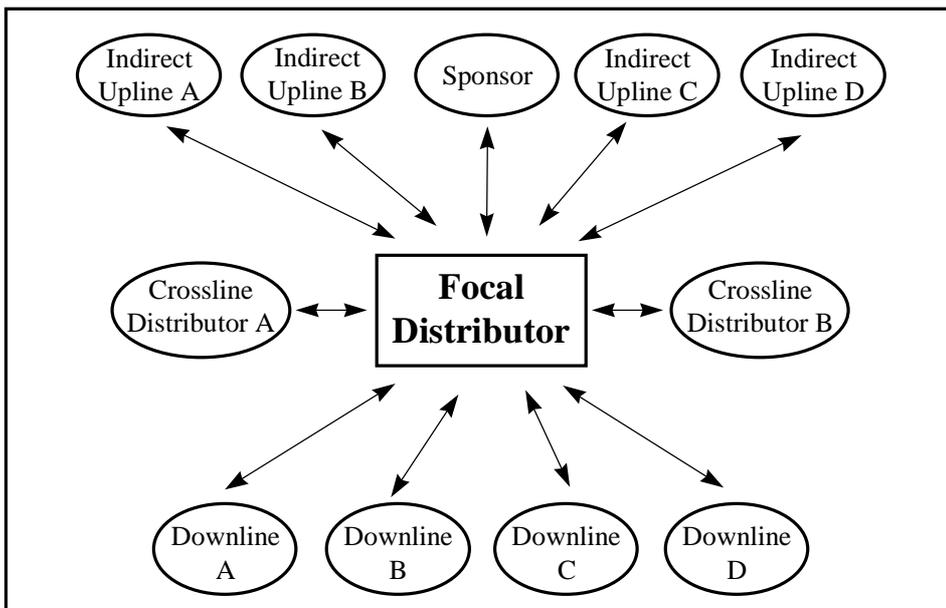
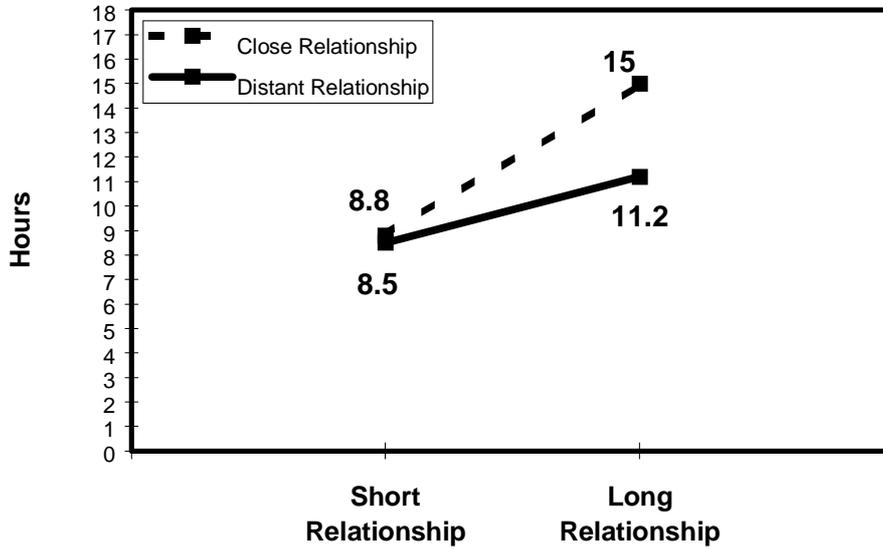


Figure Three
Hours per Month Spent on Network Management
(by type of relationship with supervisor)



ENDNOTES

- ¹ The direct-selling markets examined by Frenzen and Davis (1990) were predominantly (if not exclusively) female, hence the gendered term.
- ² Members of the Direct Selling Association must adhere to a strict Code of Business Conduct and a company cannot join until it can show a longstanding ability to meet the Code.