

The Pursuit of Transnational Strategies

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ABSTRACT

The integration -responsiveness (I-R) framework was employed to study the relationship among the alternate international strategies (multidomestic, multifocal, global, transnational). Specifically, the study investigated whether firms which employ strategies that are closer to the transnational model outperform those firms that employ other international strategy types. Focusing on international marketing strategies, data were obtained from a survey of SBUs in large U.S.-based MNEs and then analyzed to evaluate the performance of the SBU's marketing strategy under the alternate international strategies. Results indicate a significant, positive relationship between the extent to which the SBU international marketing strategy approaches that of the transnational type and the perceived performance of the international marketing strategy. Consistent with prior theoretical research, the findings suggest that greater improvements in MNE SBU international marketing strategy performance are obtained as the efficiencies from global integration and the flexibilities from national responsiveness are simultaneously pursued.

INTRODUCTION

Whether a firm pursues a particular international strategy will depend upon the characteristics (e.g., opportunities, constraints) of the external environment, the firm's internal capabilities, and the tradeoffs associated with responding to the pressures for national responsiveness and global integration (Yip, 1989, 1995). Prior research has advocated the pursuit of transnational strategies based on the arguments that these strategies reflect overcoming the tradeoffs and, thus, provide for the simultaneous attainment of both external flexibility and internal efficiency; firms that pursue transnational strategies are, therefore, argued to obtain greater performance results than those firms that do not pursue such strategies (Bartlett and Ghoshal, 1991). However, empirical research to support such results are generally lacking. This study employs the integration-responsiveness (I-R) framework (Doz, 1980) in an attempt to further the understanding of these relationships and tradeoffs. First, the relevant literature on the (I-R) framework and international strategies is reviewed and key underlying assumptions identified. Then a hypothesis is developed, a methodology to test the hypothesis presented, and test results for international marketing strategies reported. Finally, the results are discussed.

PRIOR RESEARCH

International Strategies. In developing international strategies, managers in MNEs need to be responsive to the demands imposed by local environmental forces (which differ, for example, in terms of political and economic features, customers and competitors) and to attempt to achieve congruence between subunits and their local environments through managerial and operational approaches tailored to local conditions; however, managers in MNEs also need to be responsive to the wider global forces and to also attempt to achieve internal congruence and benefits for the MNE as a whole through standardization and efficiency in operations (Leontiades, 1985; Lorange, Scott Morton and Ghoshal, 1986; Yip, 1995). The former approach reflects the necessity of being flexible, of adjusting policies, practices, operations, and products to satisfy differing local demands that stem from the different external environmental conditions facing the MNE's international subsidiaries; in this way lost opportunities through non

adaptation are reduced. The latter approach reflects an attempt by managers in the MNE to standardize operations and products, to integrate international subsidiaries into one entity, to attain the economic advantages that accrue from internal efficiencies through economies of scale; in this way, lost economies from non standardization are reduced. In essence, the former promotes external flexibility at the expense of internal efficiency, whereas the latter promotes internal efficiency at the expense of external flexibility (Wortzel, 1991). The focus selected thus reflects the benefit-cost tradeoff selected between these two countervailing forces (Johansson, 1997).

Historically, these dual approaches have been labeled, respectively, by Fayerweather (1978) as fragmentation versus unification, by Robock and Simmonds (1989) as differentiation versus standardization, and by Doz (1980) (see also Doz, Bartlett and Prahalad, 1981; Doz and Prahalad, 1984; Prahalad and Doz, 1981, 1987) as national responsiveness versus global integration.

Figure 1
The Integration-Responsiveness Grid

Degree of Global Integration	High	Global Strategy		Transnational Strategy
			Multifocal Strategy	
	Low			Multidomestic Strategy
		Low		High
		Degree of National Responsiveness		

Source: adapted from Bartlett and Ghoshal (1987a) and Hitt, Ireland, and Hoskisson (1997)

I-R Grid. The integration-responsiveness (I-R) framework (Prahalad and Doz, 1987; Roth and Morrison, 1990) has been a principal means for studying international strategy. As shown in Figure 1, the framework is represented as a 2-dimensional grid with the degree to which national responsiveness is

pursued is placed on the horizontal axis and the degree to which global integration is pursued is placed on the vertical axis; each axis ranges from low to high, reflecting the managers' perceptions of the international strategy pursued by the firm (Ghoshal and Nohria, 1993). Alternate international strategies may be differentiated by the extent to which managers pursue the dual approaches. Thus, the I-R grid becomes a convenient means of mapping the alternate international strategies. As indicated in Figure 1, prior research has generally identified four alternate international strategies on the I-R grid (Bartlett and Ghoshal, 1987a; Hitt, Ireland, and Hoskisson, 1997).

In a multidomestic strategy, the focus on external flexibility through national responsiveness dominates (high degree of national responsiveness plus low degree of global integration), with strategic decisions decentralized to each country to enable adaptation of products, services, and/or products to local demands (Ghoshal, 1987). In a global strategy, the focus for internal efficiency through global integration dominates (low degree of national responsiveness plus high degree of global integration), with strategic decisions centralized to offer standardized products, services, and/or operations across national markets (Ghoshal, 1987). A multifocal strategy attempts to attain both national responsiveness and global integration by seeking a tradeoff between the conflicting demands (e.g., decision making decentralization versus centralization, adaptation versus standardization, and external flexibility versus internal efficiency) of the two approaches; thus, a multifocal strategy is an intermediate strategy, between the multidomestic and global strategies, possessing moderate levels of national responsiveness and global integration (Prahalad and Doz, 1987). (A multifocal strategy may also be viewed as a response to regional, as contrasted with national and global demands (Morrison, Ricks, and Roth, 1991).) A transnational strategy seeks to achieve high levels of both national responsiveness and global integration simultaneously by overcoming the tradeoff between the conflicting demands of the two pressures (Bartlett and Ghoshal, 1991).

The foregoing discussions suggest that successful MNEs will be those that increasingly pursue international strategies closer to the transnational model (Bartlett and Ghoshal, 1991). However, a survey

of the extant literature indicates that empirical evidence to support this argument is generally lacking. Focusing on international marketing strategies, this study is an exploratory attempt to fill that void by offering empirical evidence in support of or against the desirability for MNEs to pursue transnational strategies over the other types shown in Figure 1.

Hypothesis. For international marketing strategies of MNE SBUs, the foregoing discussion suggests the following hypothesis:

The closer the MNE SBU's international marketing strategy is to the transnational model, the more successful the international marketing strategy will be perceived to be.

This hypothesis is consistent with the following rationales. A transnational marketing strategy, at the extreme, would be found at the upper right-hand corner of Figure 1. Consider an MNE pursuing a non-transnational marketing strategy (e.g., multidomestic, multifocal, global). Then, for a given level of national responsiveness, movement toward the transnational marketing strategy model means a vertical, upward movement of greater global integration - achieving greater internal efficiencies. This suggests that, if the MNE were able to achieve that vertical movement, its position would be improved, as it was able to overcome the tradeoff between the pressures for national responsiveness and global integration - to attain an improved position in internal efficiency without sacrificing external flexibility.

On the other hand, for a given level of global integration, movement toward the transnational marketing strategy model means a horizontal, rightward movement of greater national responsiveness - achieving external flexibility. This suggests that, if the MNE were able to achieve that horizontal movement, its position would be improved, as it was able to overcome the tradeoff between the pressures for national responsiveness and global integration - to attain an improved position in external flexibility without sacrificing internal efficiencies.

This study investigates the question of whether movement towards the transnational marketing strategy results in an improvement in the MNEs international marketing performance. The investigation

was carried out through a survey of MNE SBU managers in large U.S.-based MNEs. The managers were asked to complete a questionnaire about the international marketing strategies employed at their SBU.

METHODOLOGY

This study investigates whether pursuit of a transnational strategy is more desirable than pursuit of alternate international strategies. However, Bartlett and Ghoshal (1991) found that the particular combination of pressures for national responsiveness and pressures for global integration faced by an MNE, and thus the international strategy which the MNE employs to respond to the pressures, may differ by function (e.g., marketing, research and development, manufacturing) within the MNE. To avoid the potential problem of needing to incorporate the variable of organization function, which is beyond the scope of this study, it was deemed desirable, therefore, to focus on one function. This study focused on the MNE's international marketing strategies.

Drawing on the works of Fayerweather (1978), Negandhi (1987), and Rugman, Lecraw, and Booth, (1985), the extent to which the international marketing strategy reflects global integration and national responsiveness was each assessed via six criteria, with each criterion measured on a seven-point Likert-type scale, asking the respondents to indicate their level of agreement with a given statement (from 1 = strongly disagree to 7 = strongly agree) (see, respectively, questions 1 and 2 of the questionnaire in Appendix A), and was derived from the following considerations:

An international marketing strategy expresses the firm's long-term objectives and decisions on product, pricing, promotion, and distribution policies; for example, whether and to what extent the various policies should be uniform versus adapted to local conditions.

Global integration is manifested in terms of an international marketing strategy that aims to achieve worldwide economies of scale in the marketing of goods, which is usually attained by using standardized products for sale around the world, a uniform pricing policy, a standardized approach to advertising and promotion, a standardized approach to distribution, and by implementing product innovations uniformly on a worldwide basis.

resources to devote to international marketing activities and to enjoy economies of scale in the use of these resources, larger firms may have a greater opportunity to incorporate national responsiveness into their international marketing strategies. To avoid the potential problem of needing to incorporate the variable of firm size, which is beyond the scope of this study, the sample included only large MNEs.

Regarding SBUs of MNEs, more than one of the international strategies shown in Figure 1 may be employed by an MNE. An MNE, containing strategic business units (SBUs) in a diversity of industries that face different combinations of national responsiveness and global integration pressures, is unlikely to employ one international strategy exclusively, but instead is more likely to employ simultaneously a variety of international strategies of differing degrees or mixtures (Bartlett and Ghoshal, 1987a, 1987b, 1991; Doz, et. al., 1981; Doz and Prahalad, 1984; Prahalad and Doz, 1981, 1987, 1991). To focus the questionnaire to a target sample, the SBU was selected as the unit of analysis.

In deriving the target sample of large U.S.-based MNEs, first, the companies listed in the Forbes 500s, the Fortune industrial 500, the Fortune service 500, and the Business Week top 1000, were combined to produce a list of the 1385 largest U. S. corporations. Then, the list was pruned, with preference to retaining those U.S. firms listed in the Business Week "global 1000" and Forbes "largest U.S. multinationals" while excluding non-MNEs (such as local public utilities, domestically-oriented savings and loan institutions), majority-owned subsidiaries of non-U.S. based firms, and "smaller" firms (those not listed in at least two of the four sources for the list of 1385 corporations). The resulting master mailing list comprised 532 firms likely to represent large U.S.-based MNEs.

Data collection was via mail: the letter soliciting cooperation and questionnaire (pretested with several corporate managers from large U.S.-based MNEs) were sent to the top manager (CEO or President) of each of the 532 firms requesting that the senior manager of an SBU within the firm complete and return the questionnaire. The initial and follow-up mailings yielded a total of 113 usable questionnaires from 113 SBUs of 100 large U.S.-based MNEs (19% of the 532 MNEs contacted). The number of usable questionnaires (and responding SBUs) is larger than the number of responding MNEs:

ninety five MNEs each responded with one questionnaire each for one SBU within each firm, and five MNEs each responded with one questionnaire each for several SBUs within each firm.

In evaluating the data, two assessments were made. The first considered that some MNEs responded with one questionnaire each (i.e., one SBU each) and other MNEs responded with several questionnaires each (one questionnaire for each of several SBUs). Because the SBU is the unit of analysis in this study and the questionnaires are focused on SBUs within an MNE, it was deemed appropriate to retain all of the 113 usable questionnaires in analyzing the data. Second, t-tests were used to make an assessment of the representativeness of the respondents to this study. As compared both to the population surveyed in this study and to the nonrespondents, the total sales and gross profits of the respondents were significantly greater ($p < 0.05$). Since this study sought to survey large firms, the respondents were deemed appropriate for this study.

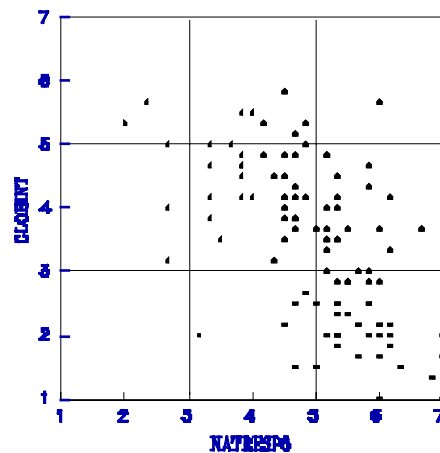
Following are key characteristics of the respondents. The sample of 100 MNEs had: worldwide revenues ranging from U.S.\$ 500 million to over U.S.\$ 80 billion with a mean of U.S.\$ 9 billion and median of U.S.\$ 3 billion; revenue from outside the U.S. as a percentage of total revenues ranging from 1% to over 60% with a mean and median of about 30%. The sample of 113 SBUs had: worldwide revenues ranging from U.S.\$ 10 million to U.S.\$ 28 billion with a mean of U.S.\$ 1.9 billion and median of U.S.\$ 553 million; the percentage of total revenue from outside the United States ranging from 1% to 100% with a mean and median of about 50%. Forty-three, or 38.1%, of the sample of 113 SBUs are from MNEs listed in the Forbes 120 largest U.S.-based MNEs.

Both the MNE and the SBU samples cover 7 of the 9 SIC (Standard Industrial Classification) divisions with the majority (71% of MNE and 72% of SBU samples) being primarily manufacturing firms. In terms of primary 2-digit SIC categories, the MNE and SBU samples cover 33 and 31 categories, respectively; the more populous SIC codes were 28 (chemicals and allied products), (15% of MNEs, 18% of SBUs) and 35 (industrial & commercial machinery & computer equipment), (10% of MNEs, 11% of SBUs).

DATA ANALYSES AND RESULTS

To view overall international marketing strategy on the I-R grid, additive scales labeled NATRESP6 and GLOBINT, representing the degree to which the international marketing strategy is characterized as national responsiveness and global integration respectively, were developed. GLOBINT consists of the six items in Appendix 1, question 1, and NATRESP6 consists of the six items in Appendix 1, question 2. The standardized alpha for the GLOBINT scale was found to be 0.8012 and 0.7325 for the NATRESP6 scale; both scales are deemed to have satisfactory internal reliability for exploratory research (Nunnally, 1978; Peter, 1979; Van de Ven and Ferry 1980). As indicated in Figure 2, the location of each of the sample MNE SBU's international marketing strategies in the I-R Grid were obtained by simply plotting their corresponding computed values of GLOBINT and NATRESP6.

Figure 2
The I-R Grid for International Marketing Strategies in This Study



The “ideal transnational marketing strategy” is located at the upper right hand corner of the I-R Grid in Figure 2, where both GLOBINT = 7 and NATRESP6 = 7. The degree to which an MNE SBU's international strategy approached the transnational model was computed as the distance, D , from the

MNE SBU's international marketing strategy location plotted in Figure 2 to the upper right hand corner of the I-R Grid in Figure 2. The smaller the value of D, the closer the international marketing strategy approaches that of the 'ideal' transnational model.

The SBU's overall marketing performance was labeled MPRAT.

To determine whether an MNE SBU's international marketing strategy was perceived as more successful as the international marketing strategy approached the 'ideal' transnational model, a Pearson's correlation was computed between the variables D and MPRAT. The resultant Pearson's correlation was $r = -0.1852$, $p = 0.0574$. The results show a significant negative correlation supporting the hypothesis of this study, namely, the closer the MNE SBU's international marketing strategy is to the transnational model, the more successful the international marketing strategy is perceived to be.

DISCUSSION and CONCLUSION

The results of this study provide empirical support for Bartlett and Ghoshal's (1991) arguments of the desirability for the MNE to attempt to pursue strategies that approach the transnational model. In particular, an international marketing strategy that is increasingly transnational improves the MNE's position in internal efficiencies and/or external flexibilities without sacrificing one for the other. However, pursuit of a transnational marketing strategy requires that the MNE overcome the tradeoff between the pressures for national responsiveness and global integration. As such, more successful international marketing strategies are likely to be those that are more able to overcome this tradeoff.

The foregoing does not support the skepticism of researchers and those that have questioned the desirability of pursuing transnational strategies in general (Roth and Morrison, 1990; Leong and Tan, 1993), and transnational marketing strategies in particular (Fleenor, 1993; Szymanski, Bharadwaj and Varadarajan, 1993; Morrison and Roth, 1991; Douglas and Wind, 1987) for reasons that include: globalization is no panacea because global imperatives are being eclipsed by a rise in regional pressures (Morrison, Ricks, and Roth, 1991) leading to an increased emphasis on multifocal strategies, and increasing divergence in the characteristics of national markets (Craig, Douglas, and Grein, 1992) leading

to increased emphasis for localized approaches. Rather, the findings of this study provide encouragement to pursue a transnational model for international marketing strategies, the success from which is perceived to be greater than that obtained from the other international marketing strategies.

In conclusion, while this paper has provided an initial set of empirical results with respect to the desirability of pursuing a transnational strategy, more work needs to be done to understand the MNE's needs, capabilities, and limitations related to effective international strategy formulation and implementation. For example, the present study has a number of limitations that could be addressed by further research. The sampling frame included primarily manufacturing businesses of large U.S.-based MNE SBUs. Research should extend this frame to MNEs from other countries, nonmanufacturing businesses and smaller firms. In this study, international strategies were restricted to marketing; a study of other international strategies, such as manufacturing, is called for. A longitudinal study should be conducted to ascertain whether and what changes are taking place in the "dual pressures" faced by the firms and their response to the pressures.

Overall, this study suggests that firms designing international marketing strategies should attempt to pursue the transnational model, but they also need to develop means to overcome the tradeoffs associated with the external flexibilities derived from national responsiveness and the international efficiencies derived from global integration. It is important that future studies develop means to overcome these tradeoffs. In addition, greater understanding of the limitations to the desirability and attainment of transnational strategies via increasing national responsiveness and/or global integration warrant further investigation.

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Appendix A

Questions Relating to the SBU's International Marketing Strategy

This study focuses on the Strategic Business Unit (SBU). An SBU is a business unit within the firm that is managed in a manner that is reasonably independent of other businesses within the firm. SBUs are distinguished by being concerned with relatively different products, markets and competitors. They are often referred to as divisions (e.g., the computer division versus the consumer electronics division) or groups (e.g., the chemicals group versus the personal care products group).

<1>. Using the scale below, indicate your level of agreement with each of the following statements by circling one number on the scale to the right of the statement.

1-----2-----3-----4-----5-----6-----7
 strongly disagree disagree tend to disagree neutral tend to agree agree strongly agree

My SBU's international marketing strategy aims to:

- | | | |
|----|---|---------------------------------------|
| a. | market standardized products throughout the world | 1-----2-----3-----4-----5-----6-----7 |
| b. | employ a standardized, worldwide pricing policy | 1-----2-----3-----4-----5-----6-----7 |
| c. | employ uniform advertising processes and techniques in different markets for the same product | 1-----2-----3-----4-----5-----6-----7 |
| d. | use similar distribution channels in different markets | 1-----2-----3-----4-----5-----6-----7 |
| e. | apply product changes on a worldwide basis | 1-----2-----3-----4-----5-----6-----7 |
| f. | treat the world as a single market for a given product | 1-----2-----3-----4-----5-----6-----7 |

<2>. Using the scale below, indicate your level of agreement with each of the following statements by circling one number on the scale to the right of the statement.

1-----2-----3-----4-----5-----6-----7
 strongly disagree disagree tend to disagree neutral tend to agree agree strongly agree

My SBU's international marketing strategy aims to:

- | | | |
|----|--|---------------------------------------|
| a. | tailor product characteristics to the local market | 1-----2-----3-----4-----5-----6-----7 |
| b. | set a minimum product price and then adjust it for local conditions | 1-----2-----3-----4-----5-----6-----7 |
| c. | employ customized advertising and promotion approaches for each market | 1-----2-----3-----4-----5-----6-----7 |
| d. | use distribution channels that are consistent with local practices | 1-----2-----3-----4-----5-----6-----7 |
| e. | introduce product innovations/changes selectively, according to local market characteristics | 1-----2-----3-----4-----5-----6-----7 |
| f. | treat the world as unique, individual markets | 1-----2-----3-----4-----5-----6-----7 |