04-Jul-2017

Dear Mr. LI:

Manuscript ID JMO-2017-0135 entitled "Sub-National Differences and Entry Mode Performance: Multinationals in East and West China" which you submitted to the Journal of Management & Organization, has been reviewed.  The comments of the reviewer(s) are included at the bottom of this letter.

The reviewers have highlighted in their comments what they consider to be both strengths and weaknesses of your paper.  They see potential in the paper, but have identified a range of issues that need to be addressed.  I believe that at least the majority of the issues can be addressed through a revision of the paper and I am therefore inviting you to revise and resubmit this paper after having made changes in-line with those suggested by the reviewers. Please note that this invitation to resubmit a revised version of the paper does not constitute an offer to publish your paper.  Rather, the paper will be reviewed again and a decision will be made at that particular point.

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When responding to the reviewer comments in the 'Respond to Decision Letter' text box please DO NOT include any author identifying information (such as your name or institution). This information will go to the reviewers and any author identifying information will compromise the double blind review process - thus potentially putting the progress of your paper towards publication at risk.

IMPORTANT:  Your original files are available to you when you upload your revised manuscript.  Please delete any redundant files before completing the submission.

Because we are trying to facilitate timely publication of manuscripts submitted to the Journal of Management & Organization, your revised manuscript should be submitted by 02-Oct-2017.  If it is not possible for you to submit your revision by this date, we may have to consider your paper as a new submission.

Once again, thank you for submitting your manuscript to the Journal of Management & Organization and I look forward to receiving your revision.

Sincerely,
Dr. Tui McKeown
Associate Editor, Journal of Management & Organization
tui.mckeown@monash.edu

**RESPONSE TO EDITOR:**

*Response: Thank you very much for your very constructive comments and suggestions, and for summarizing reviewer concerns. We appreciate the opportunity to revise and resubmit our manuscript. In consequence, we believe the paper has improved greatly. We have worked hard to respond to all the review comments, and hope that this revision meets the standards of JMO. Also, we reviewed back issues of JMO and identified excellent articles pertinent to our study that help us frame our arguments within the context of scholarly conversation in the journal (e.g., Galvin 2014; Han et al. 2016; Zhou et al. 2017). We describe how we have addressed the reviewers’ comments below.*

Reviewer(s)' Comments to Author:
Reviewer: 1

Comments to the Author
This study contributes to an important and well-researched field of study, and the author(s) tried to provide clarity on the relationship between entry mode choice and firms' performance in a different context. In general, the manuscript is well structured. However, there are a few concerns which have been identified and need to be addressed before the manuscript can be accepted for publication.

*Response: Thank you very much for your insightful and constructive critiques. In particular we appreciate the way you have pushed us to improve our theory. Indeed, your comments led to the two most important improvements in this draft: clarity of our contributions and arguments, and identification of excellent future directions. This has enabled us to be clearer about what we were trying to say and to identify future research directions. Below, we document how your comments have guided our revision.*

1-There is no proper literature review; whatever there is, is very descriptive and a lot of important studies in the field have not been consulted.

*Response: Following your suggestions, we have revised the draft by citing additional important studies in the entry mode field. For example, we consulted important studies such as Brouthers (2013), Brouthers (2002), Brouthers, Brouthers, and Werner, (2013), Brouthers & Hennart (2007), Tihanyi, Griffith, & Russell (2005), and add citations to our arguments (Section “Entry mode selection and subsidiary Performance.*

*The performance implications of entry mode choices have been extensively studied (see Brouthers, 2013; Brouthers, 2002; Brouthers, Brouthers, and Werner, 2013; Brouthers & Hennart, 2007); Canabal & White, 2008 for an excellent review; Martin, 2013; Tihanyi, Griffith, & Russell, 2005). These studies demonstrate the power of transaction cost and institutional theory to account for entry-mode choice, and establish a clear link between mode choice and subsidiary performance. Under different circumstances, some modes prove more profitable for multinationals than others. For example, Martin (2013) found that foreign subsidiaries adopting WOS mode perform better than those adopting JV mode. However, these studies focus on the performance effects of mode choices using the nation at the unit of entry and they have produced mixed results (e.g., Schaaper, Mizoguchi, Nakamura, & Yamashita, 2011; Woodcock, Beamish & Makino, 1994; Gomes-Casseres, Jenkins, & Zámborský, 2018).*

*We agree that some important studies of entry mode choice are not cited in the paper (e.g., antecedents and theory papers; like Brouthers & Brouthers, 2003; Meyer, 2001; Kogut & Singh, 1988; Yiu & Makino, 2002; Erramilli & Rao, 1993; Lu, 2002). However, space precluded an exhaustive review of the field, so we focused on the mode-performance relationship. More importantly, since the aim of this paper is to examine the impact of mode choices on subsidiary performance in different sub-national regions, we invest most of the effort in reviewing the literature on mode-performance relationship and on sub-national heterogeneity. Therefore, the section of “Entry Mode Selection and Subsidiary Performance” is not exhaustive. However, we follow your suggestion by adding new citations and revising arguments based on these important studies.*

Author(s) failed to state what exactly was/were the reason(s) for this study to motive readers on the importance of the study by developing a short literature map indicating what are uncovered areas in literature and what are the gaps to be filled. Author(s) should explain why this gap they have tackled worth tackling? Page 3, paragraph 2, lines 28-37, need strong justifications for conducting this study with recent citations.

*Response: We have followed on from your thoughts on “why this gap is worth tackling”. Theoretically, we argue in the Introduction section:*

*However, a direct test of how mode choice impacts subsidiary performance at the sub-national level has not been attempted. Acknowledging sub-national heterogeneity with regard to the mode-performance relationship is theoretically important. First, it reveals how the performance of a given mode depends on location factors at the sub-national level. To illustrate, in less developed sub-national regions, JV mode is likely to be more profitable than WOS mode since with local partners’ help, foreign subsidiaries can overcome the uncertainty they encounter and develop better sense of what is happening (Luo, 2007), being well-positioned to develop competitive advantages and reap high performance. Furthermore, it serves as a context to reconcile inconsistent findings in prior single-country studies (e.g., Chen, 2012; Goodman, 2013). Beyond the theoretical realm, practitioners need confirmation that the mode choices suggested by prior studies (e.g., Meyer & Nguyen, 2005; Goodman, 2013) can actually help their firms perform better.*

2-The manuscript lacks strong theoretical justifications and arguments. Author(s) did not explain much about the theory they have used to develop the hypotheses and support their arguments. Why not other theories?

*Response: This is very helpful in improving the clarity of our theoretical framework. Following your suggestions, we provide such justification in the section of “Entry mode selection and subsidiary performance”.*

*We will draw on relevant literature on sub-national difference to develop our arguments for two reasons. First, the large body of literature can provide us with compelling evidence of why sub-national heterogeneity matters and so we can explain how it affects mode-performance relationship. Second, although prior entry mode studies (Brouthers, 2013; Martin, 2013) employ multiple theories (e.g., TCE, RBV, institutional theory) to test whether subsidiaries to evaluate the performance implications of mode choice, we did not use this approach. To do so requires primary data collection from managers of multinational firms, who are increasingly hesitant to participate for various reasons. Getting access to and (reliable) responses from corporate elites is notoriously difficult and costly (He & Huang, 2011). An alternative is to use secondary data sources (He & Huang, 2011). Therefore, we base our study on a reliable secondary data source. This confines us to testing with variables included in the database.*

*Overall, we incorporated your suggestions into the text and justify clearly why we use the literature on sub-national heterogeneity rather than other theories. Thank you very much for your comment here.*
3-In page 5, paragraph 1, lines 14-19, it is stated: "Accordingly, our study specifies sub-national attributes theorised to moderate the effects of mode choice on subsidiary performance, on the assumption that local factors may benefit one mode over another….", and in page 5, paragraph 2 it is stated: "However, how sub-national heterogeneity plays a role in effectuating the impact of mode choices on subsidiary performance remains unknown….." However, in hypotheses development section it is not clear whether authors are trying to test the moderating effect of subnational differences. If yes, it is better to mention it in hypothesis three clearly. Besides, it is not clear how the subnational differences as a moderating variable is measured in this study?
As mentioned in page 10, paragraph 1: "sub-national heterogeneity in China includes political, economic and, cultural differences that may impact on subsidiary operations, productivity and performance…." from this, it can be assumed that these factors were used as the sub-dimensions to measure subnational differences in the current study. However, author(s) only used the "developed and less developed sub-national regions" to develop the hypotheses.

*Response: You correctly observe that we were not directly hypothesizing the moderating effect, which causes the confusion. On this note, what we actually meant was sub-national regions provide a context in which mixed findings from prior studies can be reconciled, and at the sub-national level we go a step further to examine consequences of mode choices. We did not hypothesize about sub-national location as a moderator on performance because we intended to demonstrate directly that the mode-performance relationship varies across sub-national regions, with JVs outperforming WOSs in less developed regions and vice versa in developed regions. The word “moderating” causes unnecessary confusion and we have reworded the passage in the section “Entry mode selection and subsidiary performance”.*

*Accordingly, we argue that sub-national heterogeneity can act as a context in which mixed findings of mode choice on subsidiary performance can be reconciled.*

*In addition, following your suggestion, we performed a robustness check to see whether the moderating effect is significant. Without distinguishing different regions, we coded the subsidiaries with WOS mode as “1” and those with JV mode as “0”. Then we coded the subsidiaries investing in Shandong Province as “1” and Gansu Province as “0”. Then we again performed the Heckman Two-stage model. We found that sub-national heterogeneity positively moderates the main effects with statistical significance (β = 9.976, p < 0.05). Then we performed t-test to re-examine the differences in performance of mode choices in each region. We again found that WOS mode as opposed to JV mode allows subsidiaries perform better in the developed regions while JV mode performs better than WOS mode in the less developed region. Thank you for pointing this out.*

*Your comment regarding the sub-dimensions of sub-national regions is very much on point. Yes, we acknowledge that there are differences in dimensions across sub-national regions, but we use a more holistic term to develop hypotheses, because development-level decomposes into these dimensions. Testing at the aggregated level subsumes their individual effects. In our theorizing, we use these dimensions as the theoretical foundations for constructing our arguments regarding how different levels of development effectuate the mode choices on performance. In China where sub-national heterogeneity is high and eastern regions are much more developed than western regions in multiple dimensions (Ma et al., 2013), we believe that it is justifiable to use a more holistic term. However, we do acknowledge that in some countries, different sub-dimensions matter more, as one region might be developed in one dimension but less developed in another dimension. This merits future investigation and we incorporate your suggestions in the section of limitations and future directions. As illustrated:*

*Third, in countries where regions are broadly similar, regions might differ from one another in only a subset of developmental dimensions. In these cases, it would be important to use higher resolution measures of sub-national variation in development. However, since our sample is China, where sub-national heterogeneity is high and eastern regions are much more developed than western regions in across all dimensions (Ma et al., 2013), we found it safe to use a more holistic term. Our findings may be indicative of trends between other east and west regions in China. Future studies using other national settings can examine how multinational managers weigh different sub-dimensions with respect to their mode selection.*

4-Population and sampling strategy are not clearly defined and justified. Although, the data was collected from appropriate sources and the method of sampling for research setting is described adequately, but it is not clear why the contacted person(s) in Shandong Provincial Industry and Commerce Administration (SPICA) and Gansu Provincial Industry and Commerce Administration (GPICA), provided information of these 113 firms and based on what criteria they selected these firms, which it leads to a degree of sampling bias.
Moreover, in page 16, paragraphs 1&2, it is mentioned that the contacted persons provided the required data for 113 anonymous companies under A, B, C,…. names. So, why they did not ask for the data for the same firms over a specific period of time (2010 to 2012, which is expected to be available) to analyze the impact of entry modes on firm performance? In fact, entry mode strategies (e.g., WOS) and firms’ internationalization are strategies which impacts on firms’ performance during an incremental process and help companies to achieve long-term profitability. Hence, conducting a longitudinal study and using data for three years could be more helpful to evaluate the impact of entry mode strategies on performance of the same firms over a specific time period, and it could be a contribution of the study.

*Response: We explained our research intentions to our government sources and requested that they collect as many observations as possible and provide relevant information relevant to the sampled firms as comprehensive as they could, because we do not know what the database contains. Sources were asked to use random sampling strategy with number generators to prevent selection bias. We stressed that sampling should comply with government policy and regulations, but these are not transparent and might result in unidentified non-disclosures. This analysis used the full extent of the data our sources could disclose. Sampling bias is not obviously a distortion in the data, but we are unable to devise corrective strategies without reference to the original databases from which data was drawn. We elaborate on that in the selection of “Methodology” in our manuscript*

*We completely agree with you that a longitudinal study would allow a test of long-term profitability, and reduce autocorrelation and heteroscedasticity issues in a GMM or a Fixed-effect model, both of which allows us to make better causal inferences. In response, we asked our contacts to see if panel data was available. Regrettably, he explained that this is the only data he can get regarding these investments. Firm-level entry mode data is very difficult to obtain in China, and we believe that he had done his best. However, we are grateful that you’ve identified this and we incorporate it into our future direction section.*

*Fourth, to observe long-term effects of mode choices on performance, future studies might attempt a longitudinal study using panel data.*

5-Literature uses a number of various measures of firms performance, including accounting based measurement (e.g., ROA which computed the ratio of net profit to total assets, ROE which computed the ratio of net profit to total equity,…).  It needs to be explained why author(s) used only net profit as subsidiaries' performance measurement?
One of the issues which make single-practice of objective data problematic is due to timing. Many internationalized firms concentrate on long-term goals (increasing market share) rather than short-term objectives such as obtaining high sales and profits (e.g., Ramsey et al., 2012), thus, despite marginal profit firm may be satisfied since it does not expect to acquire high profit or sales during short-time.

*Response: Net profits is our preferred measure of performance in conformity with IB research in the area, in which a quarter of studies use profits/profitability (Hult et al., 2008). ROA and ROE can be other valid accounting-based measures and your comment suggests an effective robustness check for our results, provided that the relevant data is available. We double checked to see whether other measures (i.e., accounting-based and market-based) can be made available. Unfortunately, the government could disclose no further information regarding these firms. We fully agree that the availability of measures of long-term performance would strengthen the findings of the current research and make it more convincing.*

*Another important reason that we use short-term (i.e., profits) measure of performance is context-based. As explained in the selection of “Measures”, previous literature on foreign firms in China has suggested that many foreign firms cannot survive in the long-run because of great uncertainty and complexity they face (e.g., Johnson & Tellis, 2008); rather, most of them reap short-term profits by utilizing advantages of newness and then exit from Chinese market (e.g., Johnson & Tellis, 2008). In this sense, we believe that profit measure is appropriate in that it helps foreign multinationals reap benefits but we do agree with you that in general, most multinationals consider mode selection as a long-term strategy, in the hope that appropriate mode selection allows them achieve high long-term performance (Anderson & Gatignon, 1986).*

6-In page 23, it is mentioned:" We propose and empirically find another contingency, sub-national heterogeneity, which can be used to explain the mixed findings of mode performance relationship……" and "Our findings directly address that call by indicating that sub-national regions serve as a contingency upon which multinational strategy (i.e., entry mode selection) affects subsidiary performance. In doing so our findings make a unique contribution to the literature on subsidiary performance by suggesting a new interaction effect,…" These parts lacked recent citations highlighting the inconsistency and mixed results of entry mode-performance relationship, and calling for more studies considering the impact of intervening and contingency factors, as well as more studies on antecedents of subsidiaries' performance. Even, they mentioned this study as a response to "Meyer and Nguyen (2005) call for more entry mode studies at sub-national level", however, the reference is old and there may be other studies working in this area. It would be better to cite recent references calling for more studies addressing this gap.

*Response: Following your advice, we did three things. First, we cited more recent work of entry mode research illuminating the inconsistency of mode-performance relationship and calling for more factors that are helpful to reconciliation. For example, see Discussion Section.*

*Furthermore, we reconcile mixed findings regarding the effect of entry mode selection on subsidiary performance, using China as the reference host. Some scholars have found that JVs outperform WOSs in China (e.g., Chen, 2012) while others suggest the opposite (e.g., Wu et al., 2013). Factors such as international experience, the presence of local complementary assets (Chen, 2012) and subsidiary industry (Teng, 2004) have been cited as influential in reconciling the mode-performance relationship. A recent study by Chang et al. (2013) tests the influence of industry. Our study proposes that sub-national heterogeneity, in terms of regional development, can also play a part (Chen 2012; Martin, 2013; Wu et al. 2013).*

*Second, with respect to the identification of more antecedents of subsidiary performance, we added on the Discussion section:*

*Indeed, some scholars (Beugelsdijk and Mudambi 2013; Chan et al. 2010; Ma et al. 2013) stress the need to explore conditions impacting on the effect of strategic decisions on subsidiary performance. Our findings directly address that call by indicating that sub-national location influences the outcome of multinational strategy (i.e., entry mode selection) in terms of subsidiary performance. In doing so our findings make a unique contribution to the literature on subsidiary performance by suggesting a new interaction effect, namely sub-national location and entry mode selection, as the antecedents to subsidiary performance. This suggests that subsidiary performance involves complicated strategic decisions and variations in host country context that need to be carefully investigated.*

*Third, we updated the citation Meyer and Nguyen (2005) and found more recent ones. These two can be reflected on Discussion section.*

*This study thus directly respond to Goodman’s (2013) and Wu et al.’s (2013) call for more entry mode studies at sub-national level.*

7-How did the results add to previous studies and existing theories/models? How different/similar were these results to previous studies? What are the theoretical contributions and implications of the results?  How does your study add to the big picture of the entry mode-performance relationship in general and for developing countries' firms? These were not critically answered in dissuasion and implication sections.

*Response: With respect to the contribution, first, we go beyond prior studies (e.g., Goodman, 2013; Meyer & Nguyen, 2005) which test the antecedents of mode by examining the performance implications of mode choices at sub-national level. To our knowledge, our study serves as the first study investigating mode-performance relationship at the sub-national level. The key implication and theoretical contribution that our study makes is the direction and the influence of the association between entry mode choices and financial performance across subnational regions. By direction we mean whether WOSs perform better than JVs in developed regions while JVs have higher performance in less developed regions. By influence we mean whether the impact of entry mode selection on subsidiary performance is smaller in developed sub-national regions than in less developed regions. This means entry mode matters more to subsidiary performance in less developed regions than in developed regions. Overall, sub-national heterogeneity alters the effect of mode selection on subsidiary performance.*

 *Moreover, we move beyond few studies examining entry mode at sub-national level by suggesting that the theoretically suggested mode choices (i.e., WOS mode in developed regions while JV mode in less developed regions) by prior studies (e.g., Goodman, 2013; Meyer & Nguyen, 2005) can in fact be beneficial to subsidiary performance. This study thus directly respond to Goodman’s (2013) and Wu et al.’s (2013) call for more entry mode studies at sub-national level.*

 *Our finding that WOSs outperform JVs in the developed sub-national regions in China is consistent with Chen (2012). However, Chen (2012) does not focus on sub-national regions. Hence, our study goes beyond prior studies by reconciling inconsistent findings of mode-performance relationship.*

 *Furthermore, we reconcile mixed findings regarding the effect of entry mode selection on subsidiary performance, using China as the reference host. Some scholars have found that JVs outperform WOSs in China (e.g., Chen, 2012) while others suggest the opposite (e.g., Wu et al., 2013). Factors such as international experience, the presence of local complementary assets (Chen, 2012) and subsidiary industry (Teng 2004) have been cited as influential in reconciling the mode-performance relationship. A recent study by Chang et al. (2013) tests the influence of industry. Our study proposes that sub-national heterogeneity, in terms of regional development, can also play a part (Chen 2012; Martin, 2013; Wu et al., 2013).*

 *This study also contributes to literature on subsidiary performance by enriching our understanding of the antecedents to subsidiary performance. Previous research decomposing the performance variance of subsidiary has found that industry, parent firm, country-level effects, and sub-national level are all influential in explaining the variations in the subsidiary performance (e.g., Chan et al., 2010). These studies overlooked the contextual effect of the relationship between sub-national effects and subsidiary performance. Indeed, some scholars (Beugelsdijk & Mudambi, 2013; Chan et al., 2010; Ma et al., 2013) stress the need to explore conditions impacting on the effect of strategic decisions on subsidiary performance. Our findings directly address that call by indicating that sub-national location influences the outcome of multinational strategy (i.e., entry mode selection) in terms of subsidiary performance. In doing so our findings make a unique contribution to the literature on subsidiary performance by suggesting a new interaction effect, namely sub-national location and entry mode selection, as the antecedents to subsidiary performance. This suggests that subsidiary performance involves complicated strategic decisions and variations in host country context that need to be carefully investigated.*

 *Finally, we add to the general picture of studies on mode-performance by suggesting that previous findings that there is a most profitable mode choice are too simplistic. Rather, mode-performance linkage can vary across a single nation-state or across different sub-national regions. Therefore our study concludes that it is geographical variations within a single host country determine different mode-performance relationships.*

*In terms of the implications for developing countries firms, we believe our findings also speak to firms from emerging markets, regarding the importance of sub-national heterogeneity to their entry strategies. In fact, to our best knowledge, no study has examined the mode-performance linkage for firms from emerging markets entering developed countries. This can serve as a good future direction and we thank you for identifying it. To illustrate:*

*Finally, future studies may provide novel insights in seeking to replicate our findings focusing on firms from emerging markets. No study has directly examined emerging MNEs’ mode choices at sub-national level in a host country and the performance implications mode choices have in that region.*

8-In Page 10, paragraph 2, it is mentioned: "We develop our arguments on why and how firm specific advantages of WOS/JVs are developed differently in regions, concluding that WOS mode and JV mode is more appropriate and profitable in each type of sub-national region, respectively….." How and where author(s) addressed these questions in this manuscript? The purpose of this study is to analyze entry mode-performance relationship while considering the effects of subnational differences. Based on the presented results and discussions, the question WHY and HOW entry mode strategies (i.e., WOS and JV) are developed differently, are not clearly answered and explained.

*Response: We agree that these two questions are not the core of the paper.*

*What we meant was that “we argue that foreign subsidiaries’ managers can better utilize the advantages of WOS/JV mode in developed region and less developed region, respectively”. This refers to our theoretical argument for developing the hypotheses based on the literature on sub-national heterogeneity and on entry mode. We argue that because of the stable political institutions, high level of economic development and open culture in the developed regions, foreign subsidiaries with WOS mode are more likely to utilize the advantages of this mode (e.g., full control and ownership, high autonomy) without sharing the benefits with local partners (H1). In contrast, in the less developed regions where uncertainty is high, foreign subsidiaries with JV mode can perform better with the aid of local partners, who provide critical local resource. Therefore JVs outperforms WOSs in the less developed regions (H2). We apologize for such miscommunication and have modified accordingly.*

*Response: In summary, we truly appreciate the insightful feedback and comments that you have provided regarding how we might improve the overall quality of this study. By incorporating your comments, as well as the comments of the editor and the other reviewer, we believe that the theoretical contributions of this study are much clearer and stronger. We would very much appreciate your further guidance for this study.*

Reviewer: 2

Comments to the Author
This study examines the linkages between entry mode choice (wholly owned subsidiaries vs joint ventures), subsidiary performance of 113 subsidiaries located in two different regions of China (Shandong Province and Gansu Province). Data relating to the time period 2010 to 2012 were accessed via provincial government departments and subjected to secondary analyses.

This topic is interesting and may be particularly relevant for managers working in multi-national enterprises or those considering entry modes for establishing subsidiaries, particularly in the Chinese context.

*Response: We very much appreciate the comments that you have provided, which have led us to be more organized in the structure of our paper. We are really grateful that you have taken the time and invested efforts in helping us improve our study. Below, we document how your comments guided our revisions.*

The introduction is overly detailed in some sections. Please clearly state the aim and preview the key variables and relationships that will be examined as well as the national context of the study and Provinces – some detail can be removed. Consider inserting clear statements in the Introduction about the widespread importance of this topic and relevance to JMO readers. There is no theoretical framework or propositions underpinning why organisations pursue WOS or JV or industry data showing the significance of WOS and JV to the success or otherwise of foreign market entry modes and international business dealings. A framing paragraph in the Introduction demonstrating the significance of this topic and linkages with important global and local outcomes might be helpful for non-IB readers.

*Response: This is very helpful in streamlining and restructuring our introduction. Following your suggestions, we have clearly stated the aim, the importance of this topic, as well as its relevance to non-IB scholars in general, and JMO scholars in particular (See introduction section). Since JMO scholars come from multiple backgrounds, we believe that entry mode research does speak to scholars from IB, management and marketing field.*

*The impact of multinationals’ entry mode choices on their performance across different sub-national regions of a host country is not well understood. Prior studies seldom consider the relationship between sub-national heterogeneity and mode choice.Using data on foreign investments in China, a rapidly developing host country exhibiting wide disparity in regional development, we set out to examine sub-national variation in the way mode choice influences subsidiary performance.*

 *Given its importance to scholars, managers, and policy-makers, a mature literature on foreign market-entry strategy has amassed, with contributions from management, international business, and marketing (e.g., Anderson & Gatignon, 1986; Erramilli & Rao, 1993; Harzing, 2002).*

*In addition, we justify our context in a concise manner in the Introduction section at the end of the Introduction.*

*The reason multinationals prefer a WOS or JV mode and how mode choices matter to their success is outlined in the Introduction Section.*

*We focus on the WOS and JV modes in conformity with the many studies showing that the choice between them is critical to subsidiary performance (e.g., Brouthers, 2013; Hennart & Slangen, 2015). The WOS mode allows maximum control over operations in a host country and with local partners (Gomes-Cassere,s 1990). The JV mode offers local knowledge, resources and enterprise networks which reduces risk exposure in the host country (Slangen & Van Tulder, 2009).*

The reference list is relatively balanced, including a few books and while some sources are published after 2010, there are many dated sources.  Please provide descriptions or definitions for key terms (WOS and JV) as there are for other terms such as “stability of government policies”, “intermediaries” and “market size” – perhaps copy or move the first sentence under “III. Hypotheses Development” on WOS and the first sentence under Hypothesis 1 on JV.

*Response: We removed some outdated sources (e.g., Dyer & Singh, 1998; Gatignon & Anderson, 1988) and provide more recent studies (e.g., Han et al., 2016; Zhou et al., 2017, Gomes-Casseres et al., 2017) to support our arguments.*

*We then move the definition of WOS and JV upfront to the first paragraph because it is better to define them earlier than later, as noted in the last comment.*

*We also provide descriptions of other key terms. For stability of government policies (the section “Heterogeneity in Sub-national Political/Legal Dimension”)*

*Stability of government policies refers to the pace at which policies change, contributing to the uncertainty that foreign subsidiaries perceive (Peng 2003).*

*For intermediaries, as shown in the selection “Heterogeneity in Sub-national Economic Dimension”*.

*Intermediaries refer to universities, regional trade associations and research institutes (McEvily & Zaheer, 1999)*

*For market size, as reflected in “Heterogeneity in Sub-national Economic Dimension”*

*Market size refers to the number of buyers and consumers in the local market (Buckley & Casson, 1998)*

In relation to Methodology, the justification of China as the national context is good. However, the Methodology section is overly long and three paragraphs commencing “The data for this study” could be written more succinctly and with fewer acronyms. Please provide a clear statement along the lines that “This study presents findings from the secondary analysis of data provided by two provincial government departments, SPICA and GPICA. For confidentiality reasons, firm-level characteristics only could be accessed”.

*Response: Following your advice, we modified the three paragraphs along with the statement “This study presents findings from the secondary analysis of data provided by two provincial government departments, SPICA and GPICA. For confidentiality reasons, firm-level characteristics only could be accessed”. Then we make the three paragraphs more concise, given the basic content remains clear. For the data collection process, we added the second paragraph in correspondence to the 4th comment raised by the first reviewer.*

*This study presents findings from the secondary analysis of data provided by two provincial government departments, Shandong Provincial Industry and Commerce Administration (SPICA) and Gansu Provincial Industry and Commerce Administration (GPICA). Foreign enterprises must submit their annual financial reports to the two departments, which at the end of each year will submit the annual reports to the Chinese National Industry and Commerce Administration (CNICA), a central government office. That is, the data publicised by CNICA consists of the statistics reported by provincial administrative departments. Thus we have reasons to believe that the data from the two sub-national departments is legitimate. However, as the data publicized by the central government is a total statistics of foreign firms (e.g., how many foreign JVs have been established in China this year) and the relevant details of each firm is not available, we were not able to obtain these details from the CNICA. Despite that, although the data publicized by CNICA does not permit readers to collect firm-level information because of protection of business confidentiality, readers can obtain a broad overview of foreign investment situation in China and its provinces.*

*We explained our research intentions to our government sources and requested that they collect as many observations as possible and provide relevant information relevant to the sampled firms as comprehensive as they could, because we do not know what the database contains. Sources were asked to use random sampling strategy with number generators to prevent selection bias. We stressed that sampling should comply with government policy and regulations, but these are not transparent and might result in unidentified non-disclosures. This analysis used the full extent of the data our sources could disclose. Sampling bias is not obviously a distortion in the data, but we are unable to devise corrective strategies without reference to the original databases from which data was drawn.*

*For confidentiality reasons, firm-level characteristics only could be accessed and firm names are not specified). According to Cooper, Schindler and Sun (2006), and Meeker and Escobar (2014), access to business confidential information requires scholars to be ethical in terms of not disclosing such information to others. In addition, it might be necessary to camouflage the firms’ real names which are under investigation to protect their private information, such as profits (Cooper et al. 2006). Note that we specified that Independent and control variables data should lag that relating to firm performance by a year so that estimation of causality to some extent can be expected.*

Table 1 presents interesting information. In Table 1, consider presenting the details separately for the WOSs and JVs grouped under each Province heading. The way that the data are currently presented do not permit the reader to preview the firm-level characteristics by entry mode type and Province at a glance. There is no discussion of the characteristics of the WOSs and JVs by Province or comment on the different sub-sample sizes (Shandong=81; Gansu=32) – some insights could be drawn out here.

*Response: Following your suggestions, we modified Table 1 by presenting information for each mode choice under headings of each province. Then under the heading of each mode in each province, we presented firm-level characteristics, as illustrated in the revised Table 1.*

*We also briefly discussed its implications in the main text.*

*Table 1 presents information for mode choices in each province. In Shandong Province, US firms dominate the sample and show a preference for the WOS mode. This conforms to the theoretical prediction that in a developed market, foreign firms with strong capabilities are more likely to select the WOS mode to maximize their performance (Goodman, 2013). In Gansu Province, subsidiaries with JV mode are mainly from adjacent territories (i.e., Hong Kong and Taiwan), which demonstrates that geographically proximate multinationals are more familiar with the local environment and accordingly adapt their mode choices (Goodman, 2013). In Shandong, WOSs tend to be bigger than JVs, while the opposite is true in Gansu. In Shandong where market size is high and institutions are stable, larger subsidiaries with higher capabilities can better optimize profits. Yet, in Gansu where local institutions are less stable, it might be that big-sized subsidiaries vis-a-vis small-sized ones are more likely to partner with local firms to protect internal resources from being leaked to others.*

The methodology section could also be strengthened by adding supporting citations to some actions taken (i.e. confidentiality requirements/ethics to access sensitive data and specific justification for the firm performance time lag). For instance, is there a CNICA website where interested readers can locate additional publicly accessible information?

*Response: We have added citations which clarify how to protect business confidentiality when presenting sources of data (e.g., Cooper et al., 2006). As illustrated:*

*For confidentiality reasons, firm-level characteristics only could be accessed and firm names are not specified). According to Cooper, Schindler and Sun (2006), and Meeker and Escobar (2014), access to business confidential information requires scholars to be ethical in terms of not disclosing such information to others. In addition, it might be necessary to camouflage the firms’ real names which are under investigation to protect their private information, such as profits (Cooper et al., 2006).*

*In addition, the reason for the time lag of Independent variables is to better predict performance based on mode choices, to the effect that certain extent of causality can be expected (e.g., He & Huang, 2011). Sorry for the typo.*

*Note that we specified that Independent and control variables data should lag that relating to firm performance by a year so that estimation of causality to some extent can be expected.*

*CNICA does not permit readers to collect firm-level information because of protection of business confidentiality. As illustrated:*

*However, as the data publicized by the central government is a total statistics of foreign firms (e.g., how many foreign JVs have been established in China this year) and the relevant details of each firm is not available, we were not able to obtain these details from the CNICA. Despite that, although the data publicized by CNICA does not permit readers to collect firm-level information because of protection of business confidentiality, readers can obtain a broad overview of foreign investment situation in China and its provinces.*

Please specify the currency applicable for the dependent variable and show in relevant Tables. The selection of control variables is discussed, age and size and SIC code is clear, however the information relating to the countries of origin coding is unclear – perhaps reinforce this point through the presentation of “Countries of Origin” in Table 1. The use of a Heckman two-stage model appears appropriate.

*Response: Thank you for observing this oversight. The currency is RenMinBi (RMB) as specified in Table 1 and the main text. For the coding of country of origin, we code subsidiaries from Hong Kong, Macau or Taiwan as “1”, and otherwise “0” as subsidiaries from regions which are part of China have more knowledge of local conditions, which facilitate their operations and subsequent performance (Chen, 2012).*

The Results section could be strengthened by adding supporting citation/s for the data screening approach and by the overall length of this section being reduced and written more succinctly. Consider inserting side-headings to guide the reader and whether all six Tables showing results are necessary. Perhaps consider including one summary table that lists the hypotheses, indicates support/no support for each hypothesis and shows key statistical results.

*Response: Thank you very much for your invaluable comments here. We are very grateful that you have identified the points that can be strengthened, and will go through each point in sequence.*

*First, we asked the contact to use random sampling strategy with number generators, which allow us to obtain data that is randomly selected. Random selection is important for reducing or eliminating sampling bias (e.g., Cooper et al., 2006; Meeker & Escobar, 2014) and the use of number generators allows us to do so (e.g., Cooper et al. 2006; Meeker and Escobar 2014). Following your suggestion and being in consistent with the response to the 4th comment raised by reviewer 1, we added new citations to the text (e.g., Cooper et al., 2006; Meeker & Escobar, 2014))*

*We explained our research intentions to our government sources and requested that they collect as many observations as possible and provide relevant information relevant to the sampled firms as comprehensive as they could, because we do not know what the database contains. Sources were asked to use random sampling strategy with number generators to prevent selection bias. We stressed that sampling should comply with government policy and regulations, but these are not transparent and might result in unidentified non-disclosures. This analysis used the full extent of the data our sources could disclose. Sampling bias is not obviously a distortion in the data, but we are unable to devise corrective strategies without reference to the original databases from which data was drawn.*

*For confidentiality reasons, firm-level characteristics only could be accessed and firm names are not specified). According to Cooper, Schindler and Sun (2006), and Meeker and Escobar (2014), access to business confidential information requires scholars to be ethical in terms of not disclosing such information to others. In addition, it might be necessary to camouflage the firms’ real names which are under investigation to protect their private information, such as profits (Cooper et al., 2006). Note that we specified that Independent and control variables data should lag that relating to firm performance by a year so that estimation of causality to some extent can be expected.*

*Following your suggestion, we shorten the results section by making the use of words and sentences more concise, provided that we can strictly follow the steps by Shaver (1998), enabling a better understanding of our readers of this sophisticated method.*

*We added sub-headings in the Results section as you suggested showing readers the logic of our presentation. We used “Descriptive Analysis” and “Regression Analysis and Hypotheses Testing” as the titles. Regarding the number of tables, we follow strictly the procedure by Shaver (1998) to guide our readers to go through all the detailed steps, with the hope of enabling a better understanding of those readers who are not familiar with the Heckman Two-stage model and with Shaver’s (1998) study. In the original study, Shaver (1998) used three tables to present the results of mode-performance relationship. Since our study involves two sub-national regions, we believe it would be better to show the results for each province, separately.*

*Third, we added a table summarizing our results. Please see the Table 8.*

Please clarify the following statement in the Discussion section “We fill the gap by suggesting that pre-determined or theoretically derived mode choices do help subsidiaries perform better” and reference in the Practical Implications section - elaborate the linkage with theory, which theory is applicable here? In relation to study limitations, can you suggest how future studies may collect more observations and variables when accessing data was a challenge for this study? The point justifying the focus on WOSs and JVs could be strengthened with a supporting citation. Does the national context potentially limit generalisability of these findings? This point needs to be acknowledged. Policy and practical implications could also be strengthened by supporting citations from government, industry or academic research.

*Response: First, the statement should be “Our findings suggest that at sub-national level, the appropriate mode choices identified by prior studies (e.g., Goodman, 2013; Meyer & Nguyen, 2005)— WOS is appropriate in developed regions while JV is suitable in less developed regions— do help foreign subsidiaries perform better.” Namely, prior research has identified several antecedents of mode choices and found that WOS and JV are theoretically appropriate in different sub-national regions. Our study shows that it is indeed the case because of the high profitability of each mode choice in different regions.*

*Second, in terms of the theory, we suggest that the literature on sub-national heterogeneity is more applicable. The finding that entry mode is profitable in different sub-national regions has led us to conclude that sub-national differences enable different mode-performance relationship. WOSs mode exhibits better performance in developed regions while JVs perform better in less developed regions. Managers, understanding this, should select the mode choices based on the consideration of sub-national differences. As illustrated*

*While prior research has found that multinationals opt to different mode choices in sub-national regions (Goodman, 2013; Meyer & Nguyen, 2005), less understood is whether different mode choices can actually help the subsidiaries optimize performance. Drawing on literature on sub-national heterogeneity and using datasets from two government administrations of provinces in China, our results support these propositions, indicating that the influence and the direction of the association between entry mode choices and financial performance differ across sub-national regions.*

*Third, we thank you again for giving us directions to acknowledge our limitations which merit future investigations. First of all, we suggest that future studies may collect more observations and variables by interacting with managers through localized types of connections, such as use of Guanxi in China and that of Blat in Russia. As demonstrated:*

*Future studies may fruitfully examine such effect by collecting more observations and variables interacting with managers through localized types of connections, such as use of Guanxi in China and that of Blat in Russia, which gives scholars additional possibility to collect ideal information (Michailova & Worm, 2003).*

*We also add citations to justify the focus on WOS and JV.*

*That is, the study draws on only the most popular two choices, WOSs and JVs (Brouthers & Hennart, 2007).*

*In addition, following your suggestion we also acknowledge the limited generalizability of the current study, given the use of single nation-state as the setting.*

*However, since our sample is China, where sub-national heterogeneity is high and eastern regions are much more developed than western regions in across all dimensions (Ma et al., 2013), we found it safe to use a more holistic term. Our findings may be indicative of trends between other east and west regions in China. Future studies using other national settings can examine how multinational managers weigh different sub-dimensions with respect to their mode selection.*

*We also added citations for policy and practical implications.*

*Our findings yield several policy implications. To maintain local attractiveness for FDI, regions should attend to local infrastructural development, and institutional governance, reduce foreign investment taxes where feasible, encourage labour mobility, and be attentive to investor’s need for specialised local knowledge. This could encourage foreign multinationals with advanced technologies and know-how to enter via a higher value WOS (Ang, Benischke, & Doh, 2015).*

 *For managers the key practical implication is the suggestion that sub-national location-specific advantages and disadvantages need to be assessed in overseas investment decisions. It is also worth noting that we reproduce the finding of Brouthers (2013) and Brouthers et al. (2003) that theoretically derived mode choices do seem to help subsidiaries perform better. It is likely that China’s development will lead to a rising prominence of western and northern provinces. China’s eastern regions’ share of inwards FDI fell from about 90% in 1992-2002 to about 70% in 2012 (Granneman & van Dijk, 2015). Moreover, McKinsey predicts about 40% of China’s middle class will come from these provinces by 2022 (Barton, Chen & Jin, 2013). Multinationals entry mode and other strategies in China should be responsive to differences between these regions and eastern provinces.*

Overall, there is limited description about the Provinces other than one dated source (Sun and Chai 1998). Consider strengthening the contextual justification by including some information on the industry sectors, labour market profile/conditions or insert a table that shows a comparison of key Province indicators. Some additional statements supported by government, industry or academic research could be useful here. As it difficult to contextualise and appreciate the generalisability of the results, the results as currently presented are unlikely to change current thinking in this area.

*Response: We provided statistical and anecdotal evidence to compare some key indicators of both provinces, such as market size and economic development. The sources we cite are official statistics provided by government and academic studies. As shown in the Methodology Section.*

*Shandong Province shows all the characteristics of provinces in eastern region while Gansu Province has all the western regions characteristics. For political stability and FDI policies, since it is hard to obtain provincial statistical data within China, prior studies create ordinal variables to indicate whether provincial government has high level of corruption level (Ma & Delios, 2010) or has implemented FDI-friendly policy (Ma & Delios, 2010; Ma et al., 2013). For instance, Ma and Delios (2010) use locations to serve as a proxy for the friendliness of FDI policy. They coded friendless as 1 if multinationals invest in a special economic zone, 2 if in coastal cities, 3 if in a coastal open economic zone, 4 if in a provincial capital city and 5 otherwise. In this sense, Shandong Province can be categorized as 3 while Gansu province as 5 (Ma & Delios, 2010). In addition, the total value of import and export in Shandong Province in 2015 is 240,607 million US dollars while the total value in Gansu is 7952 million US dollars (National Bureau of Statistics of China, 2016). We therefore believe government in Shandong Province has implemented more friendly FDI policies and have higher political stability than government in Gansu Province.*

*Further, both provinces also differ in their economic development, market size and cultural openness. Prior academic studies found that in China, developed sub-national regions (eastern region in China) are also economically developed, have higher market size and open culture than less developed sub-national regions (western region in China) (Ma et al., 2013; Yi et al., 2015). Statistically evidence shows that in 2015, the total value of GDP produced by Shandong Province 63002.33 (100 million RMB) while Gansu Province has contributed 6790.32 (100 million RMB) (National Bureau of Statistics of China, 2016). At the same year, Shandong Province has a population of about 9.8 million but Gansu Province has about 2.6 million people (National Bureau of Statistics of China, 2016). In addition, Chan et al. (2010) argued that regional cultures affect interpersonal trust, work values, attitudes toward work and social capital. Overall, this evidence has led us to conclude that Shandong Province has most or all the characteristics of developed sub-national regions while Gansu Province is a reasonably good representation of less developed regions in China.*

There are some grammatical errors (i.e. replace “In opposite” with “In contrast” on p.13) and some overly long and complex sentences which affects the manuscript’s readability. Providing full words followed by acronyms (such as MNE, IB, and FDI) is good practice and might also be useful to readers. Please use italics consistently throughout the manuscript. Reconsider the wording of the headings, sub-headings and some Tables, so they are clearer or explicit for the reader (“Literature Review” and “Political/Legal Heterogeneity” and “Hypotheses development” do not signal or preview the content that follows). Headings and sub-headings do not require numbering and the hypotheses are not correctly presented. There are minor errors in many in-text citations (i.e., Canabal and White, 2008 – Canabal &White, 2008). The hypotheses and reference list are incorrectly presented.  Please review the JMO publication guidelines.

*Response: We have corrected the grammatical errors and broke up the overly long sentences into short ones throughout the manuscript. Full words followed by acronyms are also used throughout the study. We also corrected the inconsistency of the use of italics by making some of the sub-headings italicized. Further, we changed the headings/sub-headings. For instance, we change political heterogeneity to “Heterogeneity in Sub-national Political/Legal Dimension” and replace the general terms like “Literature review” and “Hypotheses development” with “Entry mode-performance linkage and sub-national heterogeneity” and “Mode-Performance Relationship in Sub-national Regions”, respectively to better inform readers. Numberings are removed and the formatting of hypotheses has been corrected. In-text citations are also fixed and reference list has been re-checked and corrected.*

The Conclusion largely repeats the results, please draw out key/unique insights here. The manuscript is a good length. Overall, this paper has good potential for publication once the above points are addressed.

*Response: We significantly revised the Conclusion section.*

*Prior studies on entry mode, over the last three decades have largely ignored whether the impact of entry mode on subsidiary performance may vary at sub-national level. With samples from two developmentally-differentiated regions in China, our study fills this gap by demonstrating that different mode choices vary in profitability across sub-national regions, and their magnitude of impact also differs across regions. A further contribution is that it is insufficient to investigate entry mode at national level as done by prior studies; sub-national regions, instead, also matter to multinationals’ mode selection and subsidiary performance in a host country. Overall, our study contributes to entry mode research and provides valuable suggestions to managers in practice.*