

THE RELATION BETWEEN INSTITUTIONAL CONTEXT AND BUSINESS PERFORMANCE OF THE FIRMS WITHIN VAT REFUND FOR TOURISTS IN CHIANG MAI

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ABSTRACT

This article demonstrates the effects of business motivation on implementing value added tax refund for tourists' systems (VAT refund). It examined the relationship between the institutional context and business performances of the firms within value added tax (VAT) refund for tourists in Chiang Mai, both in internal context and external context. The findings showed that internal institutional context, consisting of management factor and marketing factor had the positive effect on business performance. Therefore, a key decision for managers or owners was to focus on internal institutional context for making a decision to implement VAT refund which helped to achieve business performance.

Keywords: Value added tax, VAT refund, internal institutional, external institutional, business performance

Introduction

The tax system is one of the main elements of market economy. It is the government's main instrument influencing the development of economic and social development. Tourism industry is important industry in Thailand. Thailand tourism industry is growing at the rate of 5.45 percentage of tourism direct GDP (TDGDP) compared within the country whose ratio is likely to increase. This has contributed to new jobs, approximately 4.45 million in 3 quarters of 2015 or 11.64 percentage of overall employment (Staff, 2015).

Tax free shopping provides many advantages, such as new jobs, opportunity for exports, and support of tourism market which does not require high initial cost. Moreover, businesses have an opportunity to sell their products at the lower price. Governors have promoted the tourism industry by using recovery systems of the value added tax on goods and services to tourists. Value added tax can be recovered on purchases made by foreigners in the reverse crossing border of the country in which they were acquired. Several countries have implemented value added tax refunds system for tourists, such as Tax Free in Europe, GST refund in Singapore, Tourist Refund Scheme (TRS) in Australia and other systems of their cover of value added tax during the export of goods bought by foreigners during their stay in the country (Nikolaevna, 2013). Foreigners visiting the country imposing the VAT are exempt if the aggregate purchases do not exceed a predetermined amount. The procedure for collection of the VAT from foreigners, particularly tourists, is time consuming and a financial drain on the foreigner, the retail establishment, and the government.

The VAT Refund for Tourists Office was established on June 1st, 1999 by the Revenue Department to promote tourism in Thailand through the tax incentives. The office reports directly to the Director-General of the Revenue Department or a person assigned by the Director-General for a precise, prompt and efficient management. At the beginning, the offices were operated at 4 major international airports which were Bangkok International Airport (Don Mueang), Chiang Mai International Airport, Hat-Yai

International Airport, and Phuket International Airport. Presently, the VAT Refund for Tourists Offices is available at 8 international airports which are Suvarnabhumi, Don Mueang, Chiang Mai, Phuket, Hat-Yai, U-Tapao, Krabi and Samui International Airports (Thailand, 2016).

According to VAT Refund systems, traveler with purchase must first retrieve the VAT voucher from their luggage and then present the voucher to the customs authority at the airport. In many cases, the baggage has previously been checked in to the airline, thereby preventing the presenting of the voucher to the customs authority. Even after the voucher has been presented and certified by the customs authority, it is still necessary to go to a separate office to receive the refund. Such procedures are intolerable to a typical tourist. The computerized system disclosed herein eliminates the necessity for visiting both the customs authority and the refund office since the VAT refund is simply posted to the credit card account at the time of purchase. Due to the complexities of the procedures and the number of companies that operate refund programs long lines at the airport counters make many tourists either lose out or being charged with exorbitant fees (Mingjie, 2016). However, small business is the most flexible and easily-adaptable to market fluctuations of the market forms of business and it needs active government support (Nikolaevna, 2013).

Therefore, the role of taxation enhances the competitiveness of organization in Chiang Mai for tourism and takes national features and current trends of VAT Refunds in Chiang Mai Thailand into account. This study investigated factors influencing firm performance in order to formulate guidelines to apply VAT refunds for an organization. The research questions for this investigation are as follows:

1. What factors influence firm performance after organizations implementing VAT refunds systems?
2. Which factors can motivate the organizations to implement VAT refunds systems?

Review of the Literature and Theoretical Concept

This study applies a concept of the neoinstitutionalism

theory to help the understanding of the relationship among variables in the conceptual model. The neoinstitutionalism theory is the organizational behavior which is determined by cultural norms and values rather than by efficiency consideration in each society where there are fundamental institutions embodying expectations that specify why it may be useful for the organizations, what purposes they should fulfill, and how they should be designed (Bresser & Milloning, 2003). Institutional isomorphic change occurs with three mechanisms, consisting of coercive isomorphism, mimetic processes, and normative pressures which come from different conditions and lead to different outcomes (DiMaggio & Powell, 1983).

Additionally, Neoinstitutionalism is a consequence for the firms' strategic management because internal and external institutional environments have a profound impact on organizational success and survival. Internal institutional context affects firm to elicit varying responses and influences from the external environment. On the other hand, external institutional context affects firm by means of act of the state, regulative processes of rule setting, monitoring, and sanctioning. This will help a firm to have a competitive advantage when it creates a successful strategy suitable for its firm environment which can increase its performance. Moreover, it has been found that institutional pressure is significant on firm performance (Fikru, 2014; Huo, Han, Zhao, Zhou, Wood, & Zhai, 2013). Therefore, this study aims at examining the relationship among internal institutional context, external institutional context, and firm performance. The internal institutional contexts include management factor, marketing factor, and technology and machinery factor. In addition the external institutional contexts include economic condition factor and politics and legal factor. Thus, the research model shows that the relationships between institutional context and firm performance. These are shown below.

2.1 Internal Institutional Context

Internal institutional context is dominated by the normative component which exerts external pressures on an organization by specifying

institutionally desirable behavior considered to be organizationally internalized to the extent that it is reflected in an organization's structures, strategies, and routines (Bresser & Milloning, 2003). Moreover, normative pressures explain not only the adoption of an innovation, but also the implementation of the innovation (Huo, Han, Zhao, Zhou, Wood, & Zhai, 2013). This is relevant for all types of organizational decision to extent?? specific environment demands that are compatible with an organization's system of norms and values and should therefore be adopted. Organizations can anticipate emerging regulatory constraints, reduce the stringency of anticipated mandatory regulations and thus reduce the expected costs of compliance in the future (Phan & Baird, 2015).

Management factor

According to institutional theory companies sometimes, under pressure from stakeholders, adopt practices which are environmentally friendly and beneficial to society. There is a dire need for companies, especially those engaged in manufacturing activities, to take a proactive, rather than a reactive, approach in this regard (Dubey, Gunasekaran, & Ali, 2015). Then, top management uses organization's resources into a unique and viable posture based on its relative internal competencies and shortcoming, anticipated changes in the environment, and contingent is moved by intelligent opponents. Manager can use strategic planning to create organizations goal congruence, support creativity, change circumstances (Whittington & Cailluet, 2008), and determine the success or failure of an organization (Hynes, 2009). Moreover, this can lead to clear operation, understanding evaluating job accomplishment systematically, and correct direction for investment (Ocasio & Josephe, 2008). VAT refund for tourism can reduce prices for tourist services. Given that the price is the most important factor in the competitiveness of tourism organization, their competitiveness will increase as a result of the modernization of the tax system and the development of the tourism market (Nikolaevna, 2013). Manager can use VAT refund as strategic planning to support creativity and changing circumstance for their organization

performance. Thus, management factor seems to have a positive relationship with firm performance. Therefore, we posit the hypothesis as follows:

H1a: The management factor positively impacts firm performance.

Marketing factor

Market pressures such as competitive pressure help an organization to improve the economic benefits available from adoption of different management practices (Zhu & Sarkis, 2007). Marketing benefits from VAT refund for tourism (VRT) come from the Revenue Department that provides VRT sign to show the privilege from joining in VRT system. A trader in VRT system can get VRT sticker and VRT desktop sign at the Area Revenue Office where the store is located. Or trader can make the sign which is specified the size by the Revenue Department to suit the store (Thailand, 2016). Moreover, company advertises the store by goods' photos, store's photos and location to get sales promotion through the Revenue Department's website (www.rd.go.th/vrt). Also, tourists get manuals, related documents and foreign language brochure from traders to communicate with tourists about VRT system at the Area Revenue Office where the store is located. The stores can request the brochure from the Area Revenue Office where the store is located. Joining VRT system, the firms have benefits because it supports their market and improve their performance. Thus, marketing factor seems to have a positive relationship with firm performance. Therefore, we posit the hypothesis as follows:

H1b: The marketing factor positively impacts firm performance.

2.2 External Institutional context

External institutional context is another dimension of neoinstitutional theory that is based on institutional theory which specifies three mechanisms through which the influence of institutional transfers to organization (Dimaggio & Powell, 1983; Zailani, Eltayeb, Hsu, & Tan, 2012), 1) coercive isomorphism resulting from pressures exerted by other organizations that firm depend, which may be felt as force, persuasion, or as invitations to join in collusion. In some circumstances, organization changes are a direct response to government mandate; 2) mimetic

isomorphism resulting from the firm's rational desire to imitate the behavior of other organization. Uncertainty is powerful force that encourages imitation because an organization faces a problem with ambiguous causes or unclear solutions and wants its own model different from that of other organizations; and 3) normative isomorphism or set of expectation in particular organizational contexts about what constitutes appropriate and legitimate behavior, as established by social organization, professional association, or academic institutions. There are three benefits of VAT: neutral effect on taxation, transparency of taxation and prevention against tax evasion. The principle of tax neutrality means that taxes should be indifferent to corporates that are taxable, which means that the business taxation should not be an advantage or disadvantage for businesses (Hajduchova, Sedliacikova, & Vizlai, 2015). However, VAT refund is implemented by voluntary organization rather than mandated systems. Tax mechanism excludes tax bundle together when there is application of the tax on the tax. Taxation subject of taxpayer is a natural or legal person who registers in competent Tax office. Neoinstitutional theory is used to provide explanations for whether to adopt an innovation or the intention to adopt an innovation (Teo, Wei, & Benbast, 2003). In the context of value added tax (VAT), the element which most significantly affects tourism is its rates at which the traffic of goods and services is calculated and paid (Dombrovski & Hodzic, 2010)

Economic condition Factor

The usefulness of VAT as a scheme to tax tourism would be reduced when government has tourism problems and concerns. The different regional taxation could tackle the problems associated to tourism (Gago, Labandeira, Picos, & Rodriguez, 2009). Furthermore, specific tourism taxes generate negative attitudes in tourists and businesses against what is perceived as discriminatory policies (fiscally predatory governments) that also encourage bad practices (tax evasion through black markets).

It is well known that any taxes are distortionary when supply and/or demand is relatively elastic, since the price differential caused by taxes leads to

a significant change in the behavior of business and consumers (Gago, Labandeira, Picos, & Rodriguez, 2009). Thus, economic condition factor seems to have a positive relationship with firm performance. Therefore, we posit the hypothesis as follows:

H2a: The economic condition factor positively impacts firm performance.

Politics and legal Factor

The regional administrations and governments are important to normal market forces because they are not only acting as policy makers, but frequently as market actors. The government can also potentially induce the improvement of business policies indirectly through appropriately designed public incentives, since there are normative pressures from a variety of sources, including employees, professional groups, media and the community (Phan & Baird, 2015). For example, environmental legislation in Australia imposes liabilities not only on corporations but also on director and managers for their corporations' offences thereby forcing business to minimize their environmental impacts to comply with legal requirements (Phan & Baird, 2015). They found that the government can induce improvements in environmental performance by creating regulatory pressures such as the threat of more stringent mandatory regulation.

The impact of VAT increase prices of tourist products. It can decrease competitiveness of tourist services, demand and loss of revenue from tourism due to collecting VAT. Jensen and Wanhill (2002) found that the highest rate of VAT on tourism in Denmark is a subject of continual concern to the Danish tourist industry, notably the hotel sector, due to the belief that this is a key factor in the industry's poor financial performance in a very competitive market. The Revenue Department promotes tourism in Thailand through issuing the VAT refund system for tourists. This system is voluntary system that firms can select to implement. However, firms engage in political strategies in order to achieve access to critical decision-makers in their surroundings, to actively inform them about their firms' strategies and views, to influence these actors' opinions, and to build reputation (Nell, Puck, & Heidenreich, 2015).

Thus, politics and legal factor seems to have a positive relationship with firm performance. Therefore, we posit the hypothesis as follows:

H2b: The politics and legal factor positively impacts firm performance.

Technology and machinery factor

The majority of those business operators that are not in the system of VAT refunds to tourists agree that the primary restraining element is the difficulty in practice to follow the Revenue Department's regulation, followed by the reasons of complicated application procedure to get approval. They have to pay attention to the conditions that business operators must observe offer approval for being VAT refunds to tourists 'store, to filling of application for VAT refunds (Pandee, 2005). The Revenue Department of Thailand (RD) tries to use technology such as e-Tax invoice systems to collect tax invoice data from taxpayers especially in business. This will provide information for businesses that join VAT refund for tourist service. The service prevents forging of tax invoices which effectively increase tourists' confidence in Thai business (Suwisuthikasem & Tangsripairoj, 2008).

The implementation of system integration facilitates information sharing, shortens cycle time, reduces costs, and improves customer service, and this leads to improved financial performance. Then firms can put an effort to strengthen their system integration because companies that have adopted system integration would achieve financial benefits (Huo, Han, Zhao, Zhou, Wood, & Zhai, 2013). Moreover, the e-procurement systems provide a unique opportunity for supply managers because of the application of technology to boost competitiveness and profitability. The actions that can improve profitability and value creation are generally under the firm's control. Better management of operations should have a major impact on revenue growth, cost reduction, and asset turnover (Presutti, 2003). Thus, technology and machinery factor seems to have a positive relationship with firm performance. Therefore, we posit the hypothesis as follows:

H2c: The technology and machinery factor positively impacts firm performance.

Research Method

Population and Sample

Firms that designated as the population and sample for the data analysis are firms implementing value added tax refund of tourists (VRT) by The Revenue Department of Thailand. With regards to the population and sample, 165 firms are gathered to provide database of Revenue Department of Thailand. Mailed questionnaire distributed to all companies is used as instrument for data collection. For the analysis, 53 returned mails are complete and usable for the analysis according to the suggestion of Aaker, Kumar, and Day (2001), indicating the acceptable response rate should exceed 20%. The response rate of this study is 32.12% indicating that the gathered data for the analysis of this study is acceptable. In addition, non-response bias between early and late respondents is also examined using t-test comparisons which indicate that there is no difference between both groups of respondents.

Measure

All the variables were obtained from the survey. The independent variables include internal and external institutional context, containing five factor issues:

management, marketing, economic condition, politics and legal, and technology and machinery. Internal and external institutional context were measured on 5-point Likert scales (e.g., 5 = Strongly Agree, 4 = Agree, 3 = Neutral, 2 = Disagree, 1 = Strongly Disagree). Most of the scales employed have been adopted from the existing and validated scales used in the present and extant literature. Also, firm performance which is assigned as dependent variable was measured on 5-point Likert scales (e.g., 5 = Strongly Agree, 4 = Agree, 3 = Neutral, 2 = Disagree, 1 = Strongly Disagree).

Method

Confirmatory factor analysis (CFA) was employed to investigate the validity of constructs. Moreover, factor scores were used to estimate for regression analysis. This research demonstrates the results of factor loading and Cronbach's alpha efficiencies show that all factors loading are greater than acceptable cut-off score which is 0.40 as minimum (Nunnally & Bernstein, 1994). Cronbach's alpha of all variables are greater than 0.7 (Nunnally & Bernstein, 1994). Overall, the results in Table 1 indicate the reliability and validity of these constructs.

Table 1 Results of validity and reliability testing

Variables	Factor Loading	Cronbach's Alpha Coefficients
Management Factor (MA)	0.884 – 0.910	0.886
Marketing Factor (MK)	0.556 – 0.793	0.841
Economic condition Factor (EC)	0.834 – 0.865	0.807
Politics and legal Factor (PL)	0.826 – 0.846	0.777
Technology and machinery (TM)	0.866 – 0.878	0.839
Firm performance (FP)	0.809 – 0.863	0.789

The regression analysis using ordinary least squared method (OLS) is operated to estimate parameters

in hypotheses testing. The equation models are shown as follows:

$$FP = \beta_0 + \beta_1 MA + \beta_2 MK + \beta_3 EC + \beta_4 PL + \beta_5 TM + \beta_6 FA + \beta_7 FS + \varepsilon$$

Where FP is firm performance; MA is management factor; MK is marketing factor; EC is economic condition factor; PL is politics and legal factor; TM

is technology and machinery factor; FA is firm age; FS is firm size; and ε is error term.

Research Results

Table 2 shows the descriptive statistics and correlation matrix between variables analyzed by Pearson correlation efficiencies. Although it indicates a high

correlation between independent variables, it does not have severe multicollinearity problems according to the VIF range from 1.299 to 2.782 (Hair, 2006).

Table 2 Descriptive statistics and correlation matrix

Variables	MA	MK	EC	PL	TM	FP	FA	FS
Mean	4.1195	4.1368	4.0314	4.0943	4.1006	4.1887	2.7547	1.3962
S.D.	.65403	.57296	.66108	.57875	.65236	.59381	.97873	.56635
MA								
MK	.345*							
EC	.535**	.475**						
PL	.517**	.642**	.478**					
TM	.392**	.528**	.726**	.433**				
FP	.585**	.667**	.638**	.581**	.540**			
FA	-.094	.061	-.325*	-.128	-.212	-.095		
FS	-.009	.319*	-.051	.158	-.058	.078	.317*	

* $p < 0.05$, ** $p < 0.01$

Effects of Internal Institutional Context on Firm Performance

Table 3 presents the results of OLS regression analysis of the relationships between internal institutional contexts and firm performance. The inference hypotheses 1a and 1b whether examines the relationship among management factor, marketing factor, and firm performance. The result shows that both independent variables consisting of management factor and marketing factor have a significant positive effect on firm performance ($b_1 = .243$, $P < 0.05$; $b_2 = .457$, $P < 0.5$). Management factor is when the manager can use VAT refund as strategic planning (e.g., pricing) to support creativity and changing circumstance for their organization performance (Nikolaevna, 2013). Managers have to concern about

planning which affects performance no matter it is a large/small firm or capital/ labor intensive firm which can benefit from the adaptation aspect of strategic planning (Miller & Cardinal, 1994). VAT refund has strongest impact on tourism and price with taxes because it affects the formation of prices (Dombrovski & Hodzic, 2010). Moreover, marketing factor has benefit from VAT refund program. It will also help firm to know about crediting and advertising which improve their performance. This is consistent with Morgan, Vorhies, and Mason (2009) who found that market orientation and marketing capabilities are complementary assets that contribute to superior firm performance. As the results, Hypotheses 1a and 1b are supported.

Table 3 Results of OLS regression analysis

Independent Variables	Dependent Variable (FP)
Management Factor (MA)	.243* (.104)
Marketing Factor (MK)	.457* (.143)
Economic condition Factor (EC)	.251 (.134)
Politics and legal Factor (PL)	.047 (.134)
Technology and machinery (TM)	-.020 (.126)
Firm Age (FA)	.008 (.063)
Firm Size (FS)	-.061 (.107)
Adjusted R ²	.583

* P<0.05

Effects of External Institutional Context on Firm Performance

Table 3 presents the results of the relationships between external institutional context and firm performance. Interestingly, economic condition factor, politics and legal factor, and technology and machinery factor have no significant effect on firm performance. In the voluntary of VAT refund of Revenue Department of Thailand, there is the need of improvement of VAT refund law and regulations, and it is recommended that the regulations would be easy and well understood regulations so that they would attract firm to implement VAT refund (Sirithanangkool, 2001). Technology and machinery factor might not be affected because the capital expenditure of some technologies is too high for cost-efficient recovery (Khor, Udin, Ramayah, & Hazen, 2016). Moreover, Zhu, Sarkis, and Lai (2007) find a significant effect only on internal

environmental management of economic performance but there is no effect on externally oriented green supply chain initiatives. This reason might affect the external institutional context on firm performance. Therefore, Hypothesis 2a - 2c are not supported.

Conclusions and discussion

The governors' element to support and promoted the tourists' business is the VAT refund system because tourists' business is sensitive to prices, and also to taxes affecting the formation of price. This will give opportunity for business to sell the product at the lower price because foreigners can receive tax refund form their purchase. The firm that implements VAT refund system can gain the competitive advantage and improve their performance. However, literature advocates that institutional context will have an effect on the organizational behavior whose different conditions can lead to different outcomes.

The results show that the benefits of prices reduction from tax which can increase business performance depend on their manager and competitiveness. Manager that acknowledge VRT system will use VAT refund as some strategies to attract tourist customers and to compete rivals. Moreover, the market environment also affects business performance because firms can use Revenue Department's support by using some advertising providing goods' photos, store's photos and store' location on its website. The finding shows that internal institutional context (management factor, marketing factor) has the most powerful effect on firm performance. According to the results of the study, it is suggested that the Revenue Department should present firms management benefit and marketing benefit which will create the internal motivation for implementing VAT refund for tourists.

However, the results show that the external institutional context (economic condition factor, politics and legal factor, and technology and machinery factor) does not affect business performance. The economic condition factor might not affect much because of the price competition. The shops in VRT system are formal shops which sell products with

higher price than the smaller shop and the VAT system in our country also allows small shop to use VAT system voluntarily. Also, some shops can gain benefits from tax evasion because it is easy for firms that do not register in VAT system. Moreover, the politics and legal factor might not affect much because VRT is the voluntary system for business. Some businesses such as furniture business can't gain the benefit from VRT system because according to the law, to gain tax refund, it is required that goods have to be carried out of Thailand on the departure date. In addition, the technology and machinery factor might not affect because VRT system has several requirements for tourist such as goods have to be taken out of Thailand within 60 days from the date of purchase, Tourist must have his name or passport number on the original tax invoices that are attached to the tourist VAT Refund Application form.

This study provides the results of the effects of internal institutional context (management factor, marketing factor) and external institutional context (economic condition factor, politics and legal factor, and technology and machinery factor) on firm performance. The Revenue Department can use the results to attract firms to implement VRT system. There are alternative ways to attract firms. For example, some rules should be reduced and supporting systems should be provided not only to motivate firms to implement VAT and VRT system but also to boost economic and social development in tourism industry.

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