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The organizational structure of the public service and its role on the level of corruption: The case of Greek Tax Administration

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Abstract

According to the recent information the majority of studies concerning the corruption in the Greek Public Administration have focused on the involvement of the political parties and the offending dimension of the civil servants. This study aims to indicate the role of the organizational structure of the Greek Public Administration for the occurrence and dispersal of the phenomenon of corruption in the Greek Tax Administration. The results of the study were derived from the qualitative data of twelve interviews with people who have dealt with the issue of corruption in the Greek tax Administration

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1. Introduction

In democratic societies, corruption is, legally speaking, a manifestation of “fraud” against the rule of law; in democratic terms, it is an example of “disloyalty” to the will of the sovereign people; and, in social terms, it deprives citizens of their right to a dignified life, thus confirming as Montesquieu noted, that every man who has power tends to abuse it (J.L. Cuenca, 2010). In the literature appear many definitions of corruption, but World Bank, EU and IMF have developed a working definition of abuse of public office for private gain. Many writers (M. Philp, 2006, Ed. Brown and J. Cloke 2004), express their criticism in this definition, that over-simplifies an inherently complex phenomenon, although, they recognize the difficulty and complexity of the definition. Others (F. Vogl, 1998 and G. Gardiner, 2009, C. Sampford, 2006) claim that it ignores a number of illegal activities, such as fraud, extortion, money laundering, black market, and drug dealing, if it does not be included the abuse of public office. Finally offense that may be legal but which society defines as corrupt.

The phenomenon of corruption in the public sector receives increasing attention in recent years. It has been

regarded as a potential problem in the majority of the countries throughout the world, both developed and developing. Corruption today is truly a global phenomenon. Citizens of the Nordic countries, such as Germany, believed that corruption is a phenomenon which occurs only in distant, developing countries and the German companies, for example, when cooperate with the governments of these countries have no choice, but to follow local practices. It was not long to understand that corruption had penetrated to the state procurement system of their country and that corrupt practices applied equally and consistently to their house. The Auditor General of the German State of Hesse, Professor Udo Muller, announced in 1996 that during an inspection in 26 cities and regions, his office has identified cases of corruption in construction firms in each community, and there are similar experiences and references, both in Bavaria and Berlin, where the Attorney General investigating cases of corruption and found plentiful (M., Wiehen, 1998)

However, such a phenomenon is not an issue of the modern society. Particularly, it is as old as the first organization of human society. In ancient Athens, by the late 5th century, Pericles and Phidias were brought to trial of abuses concerning the construction of the Acropolis monuments.

Tax administration is a very attractive sector for corruption because the incentives for someone to engage with it are obvious. Corruption in tax administration is a problem that arises primarily in the interaction between Revenue Administration and business. This interaction usually leads to benefit both tax officers and companies, and the loss of total tax revenue. This collusive corruption is at the heart of most problems associated with to a malfunctioning tax administration. A well-functioning tax administration is fundamental not only for the total government revenue, but also for the entrepreneurship, because some companies will come to bear heavier tax obligations, in relation to others using informal negotiations. A malfunctioning tax administration raises the cost business incur in complying with the government's tax requirements (A. Rahman, 2009). Some businessmen prefer to have an arrangement with tax officers when they are inspected than paying normally their tax obligations. In other words, a businessman is willing to bribe if there has been a profit from the specific transaction. In Yemen, businesses report that paying a bribe of about 25% to 40% of the tax assessment can lower it by 50% (R. Tavling, 2009). This case is not a predatory act where tax officials prey on businessmen who become the victims. Is a real business transaction, from which the real loser is the Government Revenues (N. Antonakas, 2011).

Since ancient times the rulers were trying to reduce corruption in tax administration, by controlling the official, by giving them financial incentives and better salaries or by replacing them. In Ancient Egypt, the Pharaohs in their effort to reduce corruption of their tax collectors (ubiquitous scribes), they decided to control them by a group of special scribes at the head office and at the same time to pay them higher salaries (Ch. Adams, 1993). Even nowadays several countries (Argentina, Peru, etc.) under the same thought of reducing corruption, they have increased the level of salaries for the officers who are working in tax administration. In Sweden, where corruption flourished in the second half of the eighteenth and early nineteenth century, from the second half of the nineteenth century up to day, corruption seem to have been relatively absent. This could be attributed to the well paid of the public sector administrators (12 – 15 times the salary of an average industrial worker), which may have reduced the temptation to accept bribes (Lindbeck Assar, 1998). Obviously, if officers are poorly paid, or become so as a consequence of an adjustment strategy, for example, wage control in a context of massive price increases, they might be more inclined to engage in corruption (IMF, 1997). By contrast, in Greece, there is not differentiation in the salaries received by tax and customs officers with other civil servants and despite the really difficult working conditions (shift work, on the border, etc.). Moreover, they recently have received a significant reduction in their salaries. Some countries (Peru, Uganda, etc.) recognizing that the tax Administration has become so corrupt that there was no other solution, than to completely close the existing tax administration and replace it with a new organization.

Given the interaction between corruption and underground economy (S. Katsios, 2006), many researchers have focus on the measurement of the shadow economy. At the case of Greece the size of the shadow economy has estimated the range of the Greek Underground Economy at from 27% to 30% of official GDP, while in comparison with others countries of OECD, Greece appeared to have one of the most higher percentage (F. Schneider, 2009). Referring to the size of tax evasion in Greece, it has been estimated previously at about 4% of GDP (M. Vassardani, 2011).

A solution to the problem of corruption in tax administration is therefore crucial for any government. It is desirable to try to detect, to penalize and to fix corruption in tax administration. The result depends mainly on the level of corruption. A well-functioning tax administration is fundamental in promoting formal business activities, investment, and economic growth. However, in Greece corruption appears to be a powerful element in the

functioning of certain public services. According to public sector Corruption Perceptions Index 2012, by Transparency International, in 176 countries and territories around the world, Greece ranked at the 94th position (Transparency International, 2013). The most important message of that survey was that the attitude of the vast majority of Greek citizens (84%) is prepared to react to denouncing corruption cases. In the question of how big is the problem of corruption in the public sector in 20 countries – members of European Union surveyed in Transparency International survey, Greece held the highest position, along with Portugal.

Table 1. How big is the problem of corruption in the public sector

Country	How big is the problem of corruption in the public sector (1= no problem, 5= very important problem)
Greece, Portugal	4.6
Spain, Lithuania, Romania	4.5
Italy	4.4
Bulgaria, Croatia	4.3
Cyprus, Latvia, Slovakia, Slovenia	4.2
European Union	<u>4.1</u>
France	4.1
Belgium, Germany	3.9
Hungary	3.8
Estonia, United Kingdom	3.7
Luxemburg	3.2
Denmark	2.2

Source: Global Barometer 2013, Transparency International

Worth noting is that according to the latest (2012) survey of Transparency International Greece for the first time was indicated a remarkable change in the extent of corruption, with rates of reported incidents to have been reduced. The reason for this reduction is attributed to the wider economic crisis and the austerity measures that inevitably hit the front of the micro – corruption. Meanwhile the Revenue Administration was ranked as one with the poorest performance among public services because of corruption (Transparency International Greece, 2012).

Over the last years, the problem of corruption in Greece is gradually inflated and corruption has expanded beyond any reasonable limit, so the dilemma is already apparent, the corruption will collapse or the position of the country will be undermined, since the money from European Community is not endless. The time of crisis will soon come (E. Korovinis, 2009). However, it is the government and the competent supervisory authorities that are responsible to stigmatize and punish any person who has the power and abuse it for private gain. The intentions of the political leadership are not enough. There is an urgent need to be taken immediate actions to reduce corruption, not only because it will increase public revenue, but it will increase legality and social equity.

2. Methodological framework

There have been taken interviews from a target – group of people who have a deep knowledge of the phenomenon of corruption in the Greek tax administration. The target group interviewed consisted of:

- Executives of Control, Tax and Customs Services
- Tax and Custom officers who have brought in Court for committing corruption offences
- Businessmen, Accountants, Custom Agents who have previous relevant experience

It was used a unique questionnaire of about 24 questions in which were combined theoretical models and the dimensions of the practice of corruption, as was documented in previous research and was demonstrated by the recorded incidents of corruption in Greece. Special effort was made to respondents to express their views freely. So, the anonymity of respondents was strictly respected. The whole process was recorded. Data were collected from 12 interviews, all in person, carried out during the months of January and February 2012 in Athens.

To be fully understood the phenomenon of corruption in tax administration must have at least the opinion of the specific part of society which it has to be acknowledgment is often the source of corruption or, at the very least, a participant in the misuse of public authority for private gain (J. Sullivan, 2000).

3. Results and discussion

According to the data derived from the contributors of our survey the choices made in the organizational structure of the public services plays an important role for the existence and development of corruption in tax administration. In particular, most of the responders agreed that the way the control system is working, the internal organization of the units of Ministry of Finance, and the subsequent need for reorganization, the computerization system, and the existing relationship between supervisors and the staff, are the main factors which contribute greatly to the creation and development of corruption in the specific field.

There is no doubt that quality issue of service and quality of the management is now a top priority of reforms in public administration and reasonably employs politicians and officials, researchers and users of public services. Because ultimately the quality of an organized action depends on the quality of its own personnel, the human factor and force that plans and carries out (A. Makridimitris, 2003).

It is noteworthy that in the question to the contributors of our survey what are the corrective actions in order to fight the phenomenon of corruption in Greek tax administration, they replied as follows, with the frequency of answers in this field shown in the following Figure :

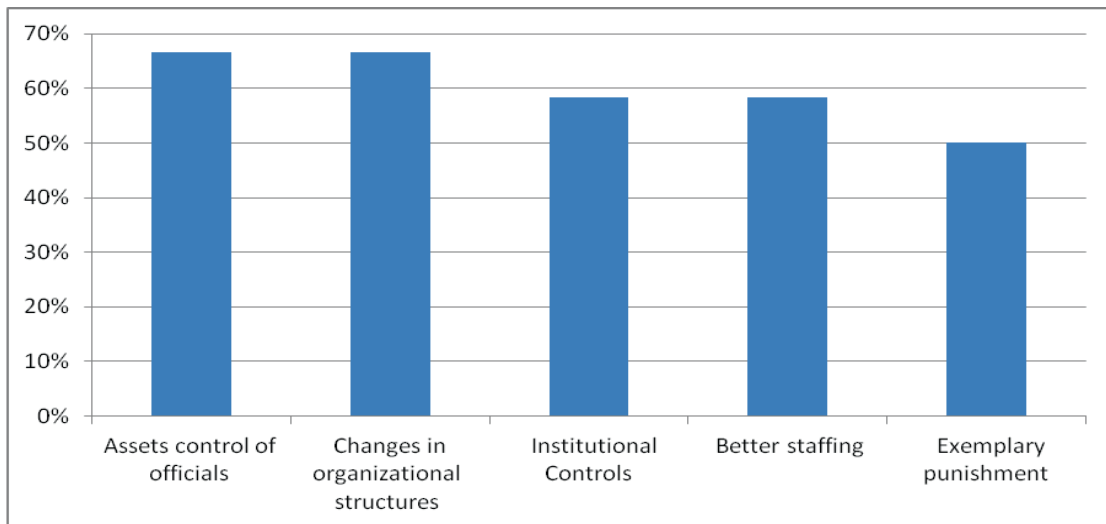


Fig. 1 Frequency of answers in the field of cures

Control System

The General directorate of Economic Inspection is responsible for the controls of Tax Services, Customs and S.D.O.E. For this reason, it is doing regular and unannounced controls over the services of Ministry of Finance in order to combat corruption. Unfortunately, in recent years the Economic Inspection has always had fewer Inspectors than expected to have. Moreover, the assigned task of auditing municipalities, municipal companies, universities, endowments, foundations, etc, have absorbed Economic Inspectors from the main task, which was the fight of corruption in the Ministry of Finance. In contrast, the auditing of public management has great success, such as the

case of the Mayor of Salonika, who was sentenced to life imprisonment for embezzlement by the municipality an amount of € 17.9 million, or the case of municipality in Crete for embezzling € 1.5 million and the case of a University where Sectors, Vice- chancellors and administrative officials were sent to prison for 10 to 31 years for fraud, corruption and embezzlement against the university. Recently, the General directorate of Economic Inspection has started the operation of the Internal Control Service, which is expected to greatly help the fight against corruption in the Ministry of Finance.

Internal Organization - Reorganization

The challenges of weak administration and pervasive corruption are closely related and mutually reinforcing. Thus, good-practice reform measures aimed at tax corruption also reflect the key features of modern tax administration (A. Rahman). The issue of reorganization of the Ministry of Finance has emerged as a top priority matter and the whole process is already in progress. There has been closed a number of tax offices and Customs, and the target is to remain only half of the existing organizational units. The central idea of the whole reorganization is to transfer all the responsibilities of collection and control of taxes and duties from the Minister of Finance to the permanent Secretary of Public Revenue (with a five years contract), which will led to a semi-autonomous tax administration. The new entity will operate with private criteria and will probably have a board that will determine its operational strategy and operation. The officers of this entity will not receive the salary of civil servants, but they will governed by a separate labour relations regime and changes in service, under which salary and service development will mainly link to the efficiency of their work. In the new organization of tax administration will be incorporated all tax services Customs and Auditing Centers, S.D.O.E. and the General Secretariat for Information Systems of the Ministry of Finance. Additionally, it has been initiated a change in the regulatory framework for reordering and updating responsibilities of tax services and Customs

Finally, it has been created and starting up the Internal Audit Service with the main purpose of combating corruption and fraud in the Ministry of Finance.

The problem lies in the weakness of tax administration to meet the demands of the times, something that was expected and known in advance, since the ongoing reorganization of the tax administration has led to a significant depreciation of units, solely because of staff shortages

Computerization

The computerization of the Ministry of Finance includes two main systems the “TAXIS” for the tax services and the “ICIS” for customs. Both these systems have been considered for their effectiveness, and the fact that there is no connection between them. For this reason it has been a great effort for the improvement and modernization of them. At the same time, it has been created a new integrated information system the “ELENXIS”, which will serve the tax services, the Customs, the SDOE and Economic Inspection. With this system, there will be done all the tax audits of the Ministry of Finance.

In this way Greece establishes a single technology infrastructure for controls, available in all audit services in the country.

The technology equipment includes except the others and 1,800 laptops distributed in 337 auditors centres in the Ministry of Finance.

The system is easier to identify those who use fake invoices or engage in fraud case. Moreover, for each audit will be created an electronic file, and the auditors can control locally most businesses with a laptop in hand, through which they are connected wirelessly to the central unit of TAXIS and ICIS, drawing information about the profile of the controlled company. These include mainly large VAT returns, tax offences, fake invoice, financial results (gross income, expenses, profits, etc.) yield the payroll tax, capital increases, etc. Then, the tax data will be sent to Taxis for further processing and intersections.

The new system will expedite the audit procedures and the imposition of fines on tax defaulters, since the tax audit will be completed within 24 hours.

During conducting the tax audit the auditor may perform additional audit checks, which are required to be done in order to provide an accurate picture of the financial management of the target company and to identify possible tax offences

Adequate information will be given by a risk analysis system, in order to highlight the cases with the highest degree risk for tax evasion.

The ministry hopes that the “ELENXIS”, will radically enhance the operational capacity of audit services, contributing decisively to improve the productivity and effectiveness of controls.

Relationship between staff

According to the opinion of the contributors, the relation between supervisors and the other staff in the public economic services is one of the factors that, as today it functions, encourage the creation and growth of corruption. Today, the way that the supervisors are selected is abstained a lot from to be characterized as meritocratic. The choices become without any criteria, simply the candidate enjoys the approval of person that has been permitted to make the choice (minister or General Secretary of income). This way has been accused that it is influenced by the parties that participate in the government and in any case create the feeling of unfairness, mainly among those have the essential and formal qualifications and final are excluded the choice. Consequence of these choices is in most cases that will be created bad relations between the supervisors and staff that lead to the problematic operation of economic service. It has been pointed out by asked, that the correct choice of heads, is the better way for the fighting of corruption. In an economic service that the head is worthy and capable for her place that he or she has been selected, it might be the better way to fight the phenomena of corruption that by any chance are developed in the specific unit. On the contrary, when the Director of a tax service do not provide the right example, either because he is corrupted, or because he is unable to recognize which of his subordinates is engaged in acts of corruption, there is not expected that the specific unit can be corruption – free.

The meritocratic consequently choice of supervisors is one of the basic and essential steps that should become in order to be fought the corruption in the space of public administration in Greece. Moreover, the case of officials, who are selected in managerial positions, despite they have been accused of corruption, creates an additional problem in the relations between employees and acts as a disincentive to fight corruption. The state where corrupt officers in the public sector are not stigmatized and are not imposed the appropriate penalties, may lead to a situation where corruption is already a status in the society (Koutsoukis, 1997). With the exception of a few countries, there seems to be a wide gap between the penalties specified in the laws and regulations and the penalties that are effectively imposed (V. Tanzi, 1998).

Complexity of Legislation

The existing tax system in Greece is characterized by his complexity, the general formulation of relative provisions and the difficulty of application from the authorized services. The existing cases of labyrinth tax laws, where the generality of provisions, the exceptions on exceptions and the additions and modifications of older laws, lead finally into practice into opposite result from what wanted the legislator. Today, there are provisions that have been voted before many years ago, they have been supplemented and modified with newer laws and no-one today know what precisely is in effect. These ambiguities allow corrupted employees to abuse their position that has entrusted to them the state so that they make their own games. The fact of inefficiency and complexity of existing tax system in Greece has been particularly stressed by a lot of international organisms, even that it constitutes essential deterrent factor for the attracting of foreigner investments. According to “The Wall Street Journal” Greece's international creditors have issued a new warning about the country's lagging tax reform efforts, ahead of a visit by a troika of budget inspectors and as data show tax collection is again falling short of target. In a 72-page report prepared by the European Commission and the International Monetary Fund, and distributed by a Greek tax-collectors group, paints a damning picture of Greece's deeply dysfunctional and creaking tax system, describing it as inadequate, prone to political manipulation and graft, and struggling with aging, understaffed and poorly trained personnel (28-2-2013).

4. Conclusions

We are in a time when everyone turned against corruption. International Organizations, political, economic and cultural leaders compose a current consensus against corruption. Public opinion in most countries maintains wide and different perceptions of corruption, in which the current consensus avoids to oppose (Gr. Lazos, 2005).

This paper represents an effort to find out the underlying effect, which has the specific choices in the Human Resources Management, on corruption in Greek tax administration. The study of the phenomenon of corruption in tax administration has in advance great difficulties, since there is not an appropriate matter for discussion, and all the participants strive for concealment. The knowledge gained from within, could serve the scientific truth, but also could contribute to suggesting solutions for reducing this pathological phenomenon. The interviews conducted with experts on corruption in Greek tax administration suggest that the penalty system and the impunity for those who are engaged in corruption acts, the way the tax and customs officers are recruited, and the assessment and promotion of officials, which has no specific criteria and cannot be accepted as objective and meritocratic, are factors which

contribute a lot at the corruption.

The aim of this paper is also to create greater awareness of the subject, and to highlight about the need to combat the phenomenon, which in Greece derives the state of several billion Euros.

After all, while corruption in Greece has probably been systemic, and the country is one step away from definitely bankruptcy, being recently under the supervision of the Troika (IMF, EU and ECB), a successful anti – corruption effort is maybe the only way for the state to increase significantly its revenue and to avoid finally the worst (N. Antonakas, 2012) .

The current problem is not moral, ethical, does not lie in the expulsion and punishment of corrupt persons. Something has changed radically into us the “Ellinonymous” of the Balkan south. Still talking Greek, but do not understand anymore what we say, the words remain Greek without mentioning the Greek way. We sell our land and our soul alike - as to not lose access to consumer greed (Giannaras Cr., 2013).

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