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# Human Resource Management's role in the public sector and the level of corruption: The case of Greek Tax Administration

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## Abstract

The aim of this study is to investigate the effect of the operation of human resource management in the public sector, in terms of the level of corruption. Furthermore, we focus on qualitative traits of the study, by analysing the choices, which have been carried out in the human resources management in the public sector in Greece, in order to draw results in relation of their effect on the existence and development of corruption in this specific area. Our conclusions are based on twelve interviews, which have been conducted with persons working or have close collaboration with Greek Tax Administration under the consideration that have faced or have experience on the topic and the level of corruption.

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## 1. Introduction

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

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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)

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.

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 5<sup>th</sup> 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 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 94<sup>th</sup> 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

<b>Country</b>	<b>How big is the problem of corruption in the public sector (1= no problem, 5= very important problem)</b>
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 management of Human Resources are favoring for the existence and development of corruption in tax administration. In particular, most of the responders agreed that the way the tax officers are selected, the way for the evaluation and promotion of them, and the management of corrupt cases which are revealed, 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 the corrective actions are 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 1:

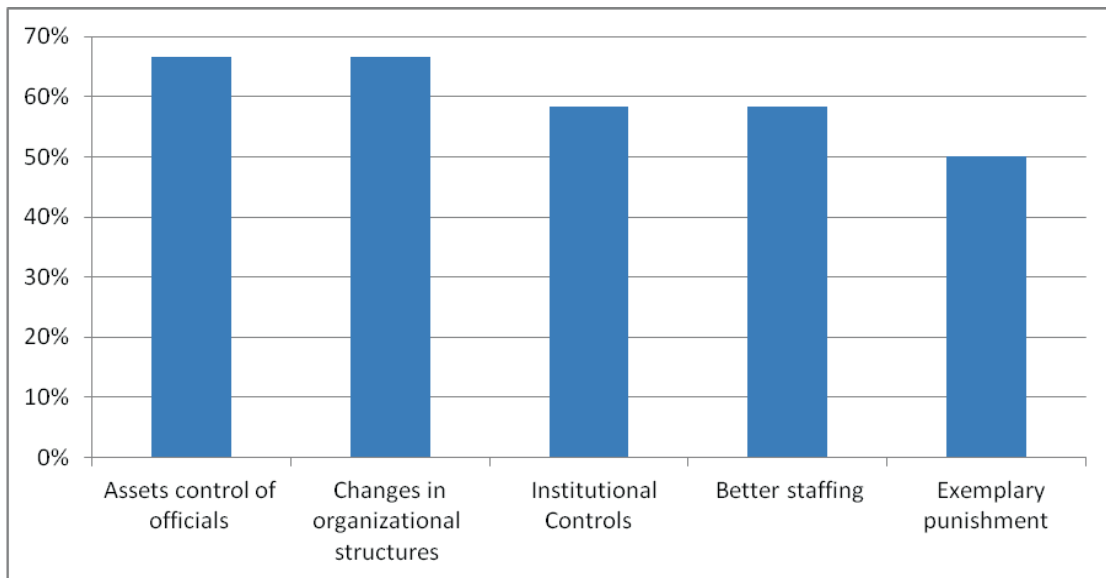


Fig. 1 Frequency of answers in the field of cures

While in the question what are the main causes for the corruption in Greek tax administration, the replies were as follows, with the frequency of answers in this field shown in the Figure 2

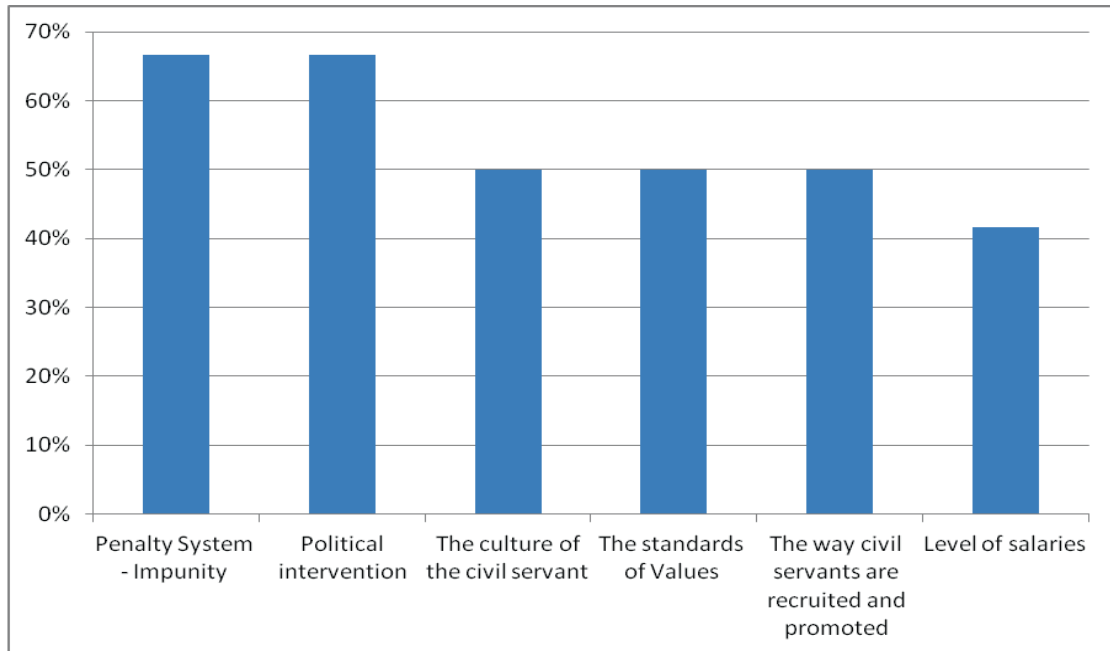


Fig. 2 Frequency of answers in the field of causes

### ***Penalty System – Impunity***

Most of the respondents considered the existing penalty system for those who are engaged in acts of corruption as the main cause of corruption in tax administration. It is fact that relatively few people have been punished, despite the extent that this phenomenon has received in Greece. The procedures provided for civil servants involved in acts of corruption are time consuming and in the most of the cases, facilitate for them to be exempt.

Disciplinary Councils, which are responsible for attributing categories to the corrupt civil servants have such composition (3 civil servants – including the Chairman – are putting by the political leadership, and the 2 others representatives of the workers), that the General Inspector of Public Administration L. Rakinzis speak for too lenient sentences. For this reason he made formal objections to the 10% of the Disciplinary Councils' (General Report, 2011).

In the following illustrative cases of officials who have committed serious disciplinary offenses are obvious the effort not to be punished with rigorous way:

- Head of Income Tax issued to her fiancé a certificate that he has no debt to the government, while he had debts totalling € 178.863. The certificate was issued using in the computerized system the password of another employee and not hers. She also did the same act for her brother. For this certificate she used the official seal of another employee. For these disciplinary and criminal offenses, the officer was punished by the relevant Disciplinary Council for three months temporary cessation from work and deprivation of earnings for the same period of time.
- Tax officer who has misappropriated an amount of about 175.000 €, was punished for this action to set aside the service six months and deprivation of earnings for the same period.
- Employee in municipality who was working in the department of License Construction bodies was found to have deposits in his bank account of € 456.000, which could not be justified by his legitimate and obvious income and which was product of transactions with persons and enterprises connected with the subject of his service and with cases that had been debited to resolve. The responsible Disciplinary Council acquitted the officer of the disciplinary charges of these actions.

For all these cases the General Inspector of Public Administration L. Rakinzis has made formal objections (General Report, 2011).

The truth is that the problem with the Disciplinary Councils was taken into account and the Government has passed a new law (4057/2012), with which the Disciplinary Councils will consist of a Judge, a representative of the Legal Council of State and a director of the relevant Ministry. But the whole procedure is not yet completed.

Furthermore, the process in the Court for imposing the penalties to the corrupt officials is too slow. For all these factors the role which penalty system plays in Greece is limited. Furthermore, there has created a perception that corrupt officials do not receive the punishment they deserve, and there are some who believe that corrupt officials rewarded instead of punished. 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).

Consequently, the punishment system for those found to have been involved in corrupt activities is not effective. The Disciplinary Committees, which are responsible for the blame and to impose the proper punishment, have been accused for been too forgiving. Furthermore, the judges who will impose penalties may themselves be accessible to corruption or may have political bias, so that may be bought by the accused or may put obstacles in the process (M. Terzi, 2012). In addition the trial of corrupt cases in the courts takes too long. So there is an argent need for a new punishment system in which punishment will be very strict and exemplary, and the whole procedure will be completed shortly.

#### ***The way civil servants are recruited***

Respondents suggested that the way the civil servants are selected for tax and customs administration is not the appropriate. Special reference was made to the system of transferring employees from other Ministries to the Ministry of Finance. Respondents identify that these civil servants are they who usually are involved in cases of corruption.

Staff working in financial services has not been hired because of any special qualifications required by the nature of work. Today the system of recruitment in the public sector is supervised by A.S.E.P. This gives an objectivity in the whole system, but it is necessary to be made special provision for the Ministry of Finance, among others (relevant bachelor and master degree, foreign languages, etc.), for employees who have previous experience in the accounting or in auditing. It should include in the examples of corruption, and the non – meritocratic recruitment and promotion in the public sector for the remuneration of votes in the part ballot (N. Embeoglou, 1998).

In addition the system of transferring employees from other Ministries, a procedure, which involves political intervention and without assessment makes things worse. Moreover, the survey revealed that transferring employees are those who primarily are involved in corrupt activities. This raises an urgent need for better staffing and mainly the prohibition of transferring employees from other Ministries and Services, without any previous assessment.

#### **Assessment and Promotion**

The existing evaluation system for civil servants, which applies to the tax administration based on Presidential Decree 318 of 1992, and is generally, accepted that is outdated and inefficient

In addition with the provisions of N.3230/2004 was established a measure of the effectiveness and efficiency of public administration. The purpose of measurement was to evaluate the services of the public administration, strengthening transparency, better utilization of available resources and generally improve the efficiency of public services for the benefit of citizens. Especially for the Treasury, with P.D.156/2007 up in central Address Quality and Efficiency, which falls under the General Logistics Department, but its remit has all the establishments of the financial sector and responsible for the measurement of efficiency and effectiveness, assessment of results and the formulation of concrete proposals to improve the establishments of the financial sector of the Ministry. The entire system is expected to evaluate and employees and affects their salaries of employees, but is not yet put into operation

Things in the matter of promotions are completely Greek. For the first time in the Greek administration with the Law 3528 of 2007 were established objective criteria for the promotion of officials. These criteria (degree of diploma, master's degree, doctorate degree, knowledge of foreign languages, etc.) lead to a leader board, which the government was bound to follow in the selection of the heads of directorates-general of the addresses and departments.

But the whole system is under review, especially while the Ministry of Finance has already abandoned the Official Employee Code in the promotion of officials. Particular the provisions of article 55 of Law 4002 of 2011,

the appointments of heads will have been without the process of objective criteria but by simple decision of the Minister of Finance. Employees placed heads on these positions should just have the qualifications prescribed for the position they occupy. Finally, Law 4152 of 2013 establishes a specific system promotion and grading and advancement for the officials of the General Secretariat of Public Revenue, notwithstanding the criteria and the procedure laid down in the provisions of the Civil Code.

This system does not yet have full applied.

They also argue that the system of promotions not help in fighting corruption. 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.

#### 4. Conclusions

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).

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