

TO CHEAT OR NOT TO CHEAT

Anastasia Spyridou, Gdansk University of Technology

CASE DESCRIPTION

The primary subject matter of this case concerns entrepreneurship behavior in a country such as Greece where over taxation is evident. Secondary issues examined include, the option an entrepreneur has in a dynamic and risky environment and how a taxation system can lead to corrupt behavior or employer's movement to other counties. The case has a difficulty level of two, appropriate for sophomore level. The case is designed to be taught in 2 class hours and is expected to require 2 hours of outside preparation by students.

CASE SYNOPSIS

This case study examines the current entrepreneurial environment in a country that suffered from a continuous crisis. A private company owner and a specific medical doctor are examined. The doctor needs to make a crucial decision for his future as he has to decide if he will continue to operate with the following governmental tax laws, or to operate by cheating the government or move to another country with better opportunities or move to a governmental medical position. By exploring the data, students should provide their opinion by justifying which decision is better for them. The main aim of this case is to explain what the current situation is by providing different taxation scenarios and the benefits or negatives of each decision. Students will elaborate their own perception which is the main objective of this case.

Keywords: Greece; Crisis; Cheat; Taxes

CASE BODY

George is a Medical Doctor in a small town in Greece. He made a decision in 2006, two years before the beginning of the crisis to be a private doctor. He could have chosen to take up a governmental career in one of the primary, secondary or tertiary hospitals in the country without a problem and never thought to move abroad to another country. As any other fresh starter, he faced several problems and difficulties relating to the survival and development of his private business. At the beginning it was difficult to attract patients to his office and later on he had problems with clients who weren't suitable for him. But now he is recognized in the local community as the best medical doctor in the area and he is working from 9 am to 11 pm, with two secretaries as he is more than busy.

Since 2008, his country faced several problems which affected drastically his business, but he manages to survive and thrive always. During those years, several companies went bankrupt which caused serious problem to the country. GDP decreased almost 26% and real income decreased more than 30% (OECD, 2017). Several specialists, well-educated employees migrated to countries such as Germany or UK among others to find a better economic environment. In fact Medical Doctors in Athens more than 1500 doctors are leaving the country every year and in the first trimester of 2018 there were 281 applications to move abroad while unemployment rate for the members was 28%.

Regarding public hospital, *"policies to address the crisis may have contributed to a reduction in hospital expenditures, but at the same time patients were increasingly dissatisfied*

with the technical care” (Keramidou & Triantafyllopoulos, 2018). Also public hospitals doctors faced huge problems as they covered a clinic alone or with limited personnel (Fotiadis & Huan, 2017). Several other changes affected the sector and led to a shrinking of public health expenses by almost 43.0% and a change of 8% to public health contribution to total health expenditures (Bank, 2015). Between 2009 and 2011 there was a 26% decrease on the public hospital budgets (OECD, 2013). There was even evidence of transmitted Malaria for the first time in the last 40 years as there was enormous cutbacks to municipality budgets (Kentikelenis et al., 2014).

Moreover, taxation for private entrepreneurs has changed critically during the last few years and they are finding it a struggle. In table 1, different scenarios are presented regarding a private medical doctor taxation system. If for example a medical doctor is getting 3,000 Euro for his services per month he will receive annually 36,000 Euro per year. He has to pay specific tax related to how many doctoral offices he maintains. If he has one, he pays 650 Euro per year if he has two 1,300 and so on. Then he has to pay a tax which includes his insurance and tax payment. This tax is almost 35% of his total profit minus expenses (in our example we assume that expenses is 40% of the total amount). Then with the remaining money the doctor has to pay another tax which was created because of the crisis. This tax varies from 0% to almost 10% based on the personal profit someone makes. In our example we use a 2% average payment. Finally, there is a personal taxation that again varies based on how much money one earns. For our example we used a 25% average while it can be even 40% in some cases. Based on all the above a final revenue comes out as some profit but the medical doctor must keep aside some money as the government requires that a businessman pay an advance for the following year. This is usually 75% of EFKA tax. Although, this money a businessman usually takes back, there is a problem of liquidity in many cases when you need to pay that money in advance.

	Scenario A	Scenario B	Scenario C	Scenario D
Average Income	3,000.00	5,000.00	7,000.00	10,000.00
Yearly Income	36,000.00	60,000.00	84,000.00	120,000.00
Expenses (40%)	14,400.00	24,000.00	33,600.00	48,000.00
Profits-Expenses	21,600.00	36,000.00	50,400.00	72,000.00
Telos epiteideumatous (Per Office) *	650.00	650.00	650.00	650.00
EFKA (35%)	7,560.00	12,600.00	17,640.00	25,200.00
Net Profit	13,390.00	22,750.00	32,110.00	46,150.00
Eisfora Allilegiis (2%)**	267.80	455.00	642.20	923.00
Personal Profits	13,122.20	22,295.00	31,467.80	45,227.00
Personal Taxation (25%)	3,280.55	5,573.75	7,866.95	11,306.75
Final Revenue	9,841.65	12,580.00	17,872.00	25,810.00
Next Year Advance Payment	5,670.00	9,450.00	13,230.00	18,900.00

*Government requires to pay per year depending on how many offices a doctor has. **Solidarity Contribution against Crisis

Furthermore, lately one of his best friends moved to Abu Dhabi, UAE for work and he is offering a position for him with almost 10,000 Euro per month, payment of tuition fees for the kids, rental payment, insurance and two tickets for him and his family per year. Thus he is faced with the dilemma, whether to continue his work as a private entrepreneur as he is considered to be the best doctor in the area and he has a great clientele list. Should he take the risk and cheat his government, so he can survive in the dynamic environment as his competitors already do that and they can offer better prices to the customers. Should he start working for the government, so he will work less hours and be more secure? Or, should he move abroad although

this will mean that he will miss his clients and might create several problem to him and his family as he is not familiar a new working environment in an Arab land.

DISCUSSION

Main problem with the development of heavy taxation systems is the tendency for stakeholders to find ways to deviate the law. For example, they can take the risk of not issuing tax receipts and as a result the government does not receive a single euro. Another limitation is the way the competitive market is developed. If control on tax losses is not enough then those who take the risk have a competitive advantage with those who cannot, as they can offer better prices creating inequality on market development.

Based on European statistics the depth of the Greek government is 180% of GDP but there are several researchers that claim that the actual depth is not more that 80% as they claim that the way statistics are calculated is not the proper one (Ellis, 2018). This extremely important parameters should be amended by policy makers and managers as it could allow the country to develop strategies that could make the environment fairer.

Several countries faced serious financial problems similar to Greece during the last century such as Portugal, Spain and Italy and they all managed to be in a better situation than Greece. For example, Portugal saw a boom in tourism when policy makers decided to reduce VAT (value added tax) from 23 percent to 13 percent. Another important recovery measure is the fact that in 2015 the Portuguese government decided austerity measures. In the case of Spain an internal devaluation strategy similar in some ways to the Greek situation one was applied which finally didn't seem to be as successful as policy makers hoped (Bilbao-Ubillos & Fernández-Sainz, 2019). In Spain austerity measures was ended because of political issues as there were several elections and political parties couldn't continue the measures adopted (Cabrera de León et al., 2018). Skilled employees is a key reason for recovery for the Italian case as Odoardi and Muratore (2019) and that would be a good example for the Greek case as skilled doctors tend to move away from Greece to find better conditions.

INSTRUCTORS' NOTES

RECOMMENDATIONS

1. Start by asking student what they know about Greece. Probably students will talk about history, famous Greek words like democracy. Then you can discuss briefly about the crisis started on 2008.
2. Discuss about the purpose of this study.
3. If case is done as a teamwork give sufficient time to the students to investigate the case and answer the questions.
4. Discuss openly the case with the students so they can express their beliefs and what would have been their decision if they were facing the same problem as George.

QUESTIONS

1. What is the main problem of this Case Study?

The main problem of this case study is the fact that the crisis in Greece is pertaining to a crisis that is existing for several years and the government's increased taxes makes it inevitable for a private entrepreneur to survive. Thus, it is important for the entrepreneur (doctor in this case) to make a crucial decision regarding his future. The options therefore are to continue to work and be legal with high risk to be bankrupt or to continue to work by cheating the government and declare less profits or alternatively move to another business such as to work for the government or move to another country. This case study also aims to indicate that some of the strategies developed by Greek public policy make were not successful. Other countries who initiated different strategies seem to recover from the crisis faster than Greece. For example, Portugal decreased their taxes so that they can allow the private sector to develop faster and in a fairer environment.

2. What are the opportunity costs for him?

Opportunity cost is when a decision maker decides he/she faces an opportunity cost which is the profit that might have been lost because of a particular decision. Thus, based on opportunity costs the decision maker can decide which decision is the best based on the criteria he/she set. Risk of course is directly associated to opportunity cost so first step is to manage to create a risk indicator and then make calculations based on the indicator and the financial data we see in the case study which is the opportunity cost for the four different scenarios. For example, if George will decide to move to another country he will lose the profit he makes in the current market which he knows very well and is successful. Moving abroad is always a risk as the market needs to be explored and understood.

3. What was some of the main effects of the crisis in Greece?

Main effects of the crisis were the fact that well-educated employees migrated to other countries while unemployment rate was one of the highest in Europe. Moreover, the crisis and public expenses decreased while taxes increased and new diseases like malaria appeared in the country. Further, it is visible austerity measures in the country did not seem to affect positively the country when compared with other countries who were affected significantly from the crisis in 2008 and have already recovered.

4. Which type of Managerial Decision must George do?

Although this is a managerial case study, it includes different types of managerial decisions as the organization decision also affects the doctor's personal decisions. There are several types of decisions that George must take. First, he has to make an organizational decision. Secondly, as he is considering what he will earn in the long run he has to make a strategic decision. At the same time he is making an individual decision which is related with policy making regarding his future and the strategy he should follow.

5. What would you do if you were facing the same situation?

Each reader can give a different answer in this question. It mainly depends on the risk the reader is willing to take or his willingness to cheat or not. From a financial point of view the decision to move abroad is the best but in this case George will be far away from his country, friends and family. If he decides to stay and continue with his company by cheating the country, he will indulge in unethical behavior, stress etc. Further, moving to a public hospital is a decision that may contain less stress but has lower profits. Following the rules and not cheating is an option for a reader but in that case the risk for the company to survive is high.

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